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NATIONAL POLICY AND ISSUES

SYSTEM OF MANDATORY PLANNING EXPLAINED

Beijing ZHONGGUO SHENHUI KEXUE in Chinese No 6, 10 Nov 82 pp 47-58

[Article by Want Renzhi [3769 1804 0037] and Gui Siyong [2710 0013 6978]: "A Discussion of the System of Mandatory Planning"]

[Text] Mandatory planning, as an important form of planned management, is dictated by the system of public ownership of the means of production. In a socialist economy, under the system of ownership by the whole people, the right to own and the right to use can neither be entirely unseparated nor entirely separated. The enforcement of mandatory planning for the products and the key enterprises which are vital to the national economy and the people's livelihood is a necessary condition for guaranteeing the effective implementation of guidance plans and for ensuring that market regulation will serve the socialist economy. Instead of conflicting with socialist commodity production, the enforcement of mandatory planning within certain limits is consistent with the socialist commodity-money relationship built on the foundation of the public ownership system. Mandatory plans, guidance plans, and market regulation are invariably based on the law of value, the only differences being in the forms and degrees in the use of this law. This is also dictated by the complexity of the motion of socialist economy. Whether mandatory planning will restrict the enterprises' initiative and encourage blind commandism depends on whether the system of planned management is rational and whether the plans are practical. In the future, mandatory planning must be confined within the limits of feasibility, and these plans must be formulated on the basis of a combination of the upper and lower levels. At the same time, the authority and benefits of the enterprises must be respected, and attention must be paid to the use of economic levers. To modernize the state's economic administration, the appropriate

delegation of power is necessary. At the same time, however, we must improve the state's direct control over economic work and promote democracy in state economic policy decisions.

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Is mandatory planning necessary? Will the practice of a socialist planned economy permit the abolition of mandatory plans? This has been the central topic of discussions on economic restructuring in recent years. This question, which involves an interpretation of the basic socialist economic system and its special features, and which concerns the orientation that our economic restructuring must follow, should be explored and clarified through a combination of theory and practice.

In the past, the scope of mandatory planning in our country was too broad and had too many targets, which stifled the economy and brought many evils. In view of this situation, we must restructure our economic system. In discussing the method of restructuring, some comrades have favored the complete abolition of mandatory plans and regarded such abolition as an indication of the degree of determination and thoroughness in carrying out the restructuring. The "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China," adopted by the Sixth Plenary Session of the 11th Party Central Committee, pointed out the need to have a planned economy on the basis of the system of public ownership and at the same time to bring into play the supplementary role of market regulation. In line with the principle of the leading role of the planned economy and the supplementary role of market regulation, the report on the work of the government at the Fourth Session of the Fifth People's National Congress also pointed out that for enterprises in the key branches of the economy or products vital to the economy and the people's living standards, production must be carried out in accordance with mandatory plans. Since then, some comrades originally favoring the abolition of mandatory plans have somewhat modified their views. They still hold that under extraordinary circumstances, mandatory plans can be used, but that as a matter of principle, these plans should be abolished. Other comrades have suggested that mandatory plans can be used within certain limits in the near or not too distant future. As the goal of a long-range reform and as an ideal model of economic system in our country, however, the abolition of mandatory plans should be in order. This shows that in principle, there are still different opinions on the important question whether mandatory plans are necessary.

In his report to the 12th National Party Congress, Comrade Hu Yaobang made an in-depth theoretical analysis of the question of mandatory planning. The report pointed out: Plans of a mandatory nature must be enforced with regard to the production and distribution of capital goods and consumer goods in the state sector which are vital to the national economy and the people's livelihood, and especially in key enterprises vital to the whole economy. This is a major

manifestation of China's socialist ownership by the whole people in the organization and management of production. The report also pointed out that in mandatory planning, we must strive to make it conform to objective reality, constantly study changes in market supply and demand, consciously make use of the law of value, and give the enterprises varying degrees of power to make decisions as they see fit. This further illustrates the need to uphold the system of mandatory planning and to improve the existing system of mandatory planning.

Mandatory planning is by no means a transitional measure which is neither contradictory to nor entirely unrelated to the socialist economic system. Rather, it is a type of planned management which is necessary to, and must be adopted by, the socialist economic system itself. The present system of mandatory planning should be improved, but never abolished. Here we would like to present some views on this question.

I

In a socialist economy, the use of mandatory planning as an important form of planned management is dictated by the system of public ownership of the means of production. The reason why the establishment of the socialist system of public ownership has made it possible for us to eliminate anarchy in social production, which is unavoidable under the capitalist system of private ownership, and for society to directly control the means of production and the labor power for production in a well-planned way has already been dealt with at great length. However, most of these discussions were about the possibility of the state's enforcing mandatory planning after the establishment of the system of public ownership of the means of production; not much has been said about the enforcement of mandatory planning within certain limits under conditions of public ownership of the means of production. The questions now raised by some comrades essentially imply that mandatory planning is unnecessary in an economy under the system of public ownership, including an economy under the system of ownership by the whole people. We believe this view is incorrect.

If mandatory planning is abolished in an economy under the system of ownership by the whole people, the production and business activities of individual enterprises will be carried out independently and under the guidance of state planning. This will mean a complete separation between the right to own and the right to use the means of production. In other words, the socialist state, as the owner of the means of production, can directly control or use the means of production on behalf of all the people. As we understand, the right to own and the right to use the means of production are separated as well as interrelated, and the separation and interrelation take different forms under different systems of ownership. In an economy under the capitalist system of private ownership, the right to own can be completely related to as well as separated from the right to use the means of production. The former condition prevails when the owner of capital runs his own business. When the owner of capital loans his capital to an entrepreneur and collects interest on his loan, the latter condition prevails. Since the most important purpose of the capitalist system of private ownership is to make a profit, the capitalist nature cannot be altered in either the former or the latter condition. The situation is entirely different in an economy under the socialist system of ownership by the whole

people. Here, the right to own and the right to use the means of production can neither be entirely unseparated nor entirely separated. Under the system of ownership by the whole people, the state, as the representative of all the people, owns the means of production which are vital to the national economy and the people's livelihood. Then these means of production, instead of being used by one unit exclusively, should be used by thousands or tens of thousands of enterprises, in accordance with the principle of rational social division of labor. In order that the means of production, owned by the whole people, can be effectively used in accordance with specific conditions and can yield optimal economic results, the enterprises using them should be given the necessary authority and benefits. In other words, separation to a certain extent between the right to own and the right to use under the economic system of ownership by the whole people is objectively necessary and indispensable. However, the socialist system of ownership by the whole people will inevitably replace the capitalist system of private ownership. Only this can make it possible for the society to control the means of production in accordance with the nature of socialized production and in the interest of the whole people. If the state cannot directly organize and control social production and cannot directly control the production and business activities of some enterprises which need direct control, then it will not be able to ensure that social production will proceed in the interest of the whole people, and the system of ownership by the whole people cannot materialize in the economy. In other words, from the standpoint of the overall situation, we can see here that the right to own and the right to use cannot be entirely separated.

Some comrades feel that state planning should be concerned with macroeconomics, and that under the guidance of state plans, all enterprises should be allowed to carry out production, exchange, and other economic activities independently within the scope permitted by policies and decrees, so that they will have independent accounting and will assume responsibility for their profits and losses. In this case, the state will not work out any mandatory plans for the enterprises and will only indirectly guide their activities through its economic policies and through administrative means. In effect, every enterprise will engage in production and business operations only for its own interest, and it will be free to implement or to refuse to implement the guidance plans of the state. The issue is that the implementation of economic policies and the use of economic means should be backed up and safeguarded by economic resources. If all materials are to be produced and controlled by the enterprises themselves, and the state cannot directly control the necessary material resources, then it will be difficult to regulate the activities of the enterprises with economic levers. In this case, how can we guarantee that the enterprises will plan their own actions in the interest of the whole people and according to the requirements of socialized production? How can these enterprises be essentially different from the enterprises under the system of collective ownership? The system of ownership of the means of production by the whole people would then be seriously weakened and might exist in name only. When the system of ownership by the whole people as the state sector of economy ceases to exist as the leading force in the entire economy, how can we be sure that the system of collective ownership, or the economy of collective ownership by the broad masses of laborers, will adhere to a socialist orientation? This is by no means alarmist talk or a logical deduction; it has already been proved in

practice. Although many different economic sectors, including private capitalist economy, existed shortly after the founding of the People's Republic, the state was in control of the economic lifeline, the key industrial enterprises, the basic means of subsistence, and the important industrial raw materials. That was why the state possessed strong material forces to combat capitalism in the market and to induce capitalist industry and commerce to accept socialist transformation. Comrade Chen Yun pointed out: The state's control of sufficient grain and cloth at that time was an important means of stabilizing the market and controlling the prices. With the control of grain to stabilize the urban market and the control of cloth to stabilize the rural market, we succeeded in preventing the speculative capitalists from creating disturbances. This historical experience shows that if the state had not possessed great material resources, it would have been basically impossible to end the current inflation which had lasted many years, and to stabilize market prices in a short time; and equally impossible to establish proletarian leadership over the entire state economy. The present situation is vastly different from what it was shortly after the founding of the People's Republic. We have eliminated the capitalist system of private ownership and established the dominance of the socialist system of public ownership. However, if the state does not enforce the necessary mandatory plans and does not directly control the necessary material resources, but instead lets each of the enterprises go its own way for its own interests, it will be difficult for state policies to be implemented, and commodity prices and many important economic activities will be out of control. The result would be serious anarchy. We would be unable to safeguard the socialist orientation of economic development or to guarantee the harmonious development of the national economy.

Does this mean that mandatory plans must be enforced over all economic activities of all enterprises owned by the whole people? The answer is no. Social demands are very complex and constantly changing, and the conditions of operation and the productive capacity of the enterprises are different in numerous ways and also are continually changing. It would therefore be difficult for the state to correctly anticipate the changes in social demands and to grasp the productive potential of all enterprises. Under these circumstances, if we still enforce mandatory plans over all the economic activities of enterprises, it may lead to a lack of coordination between production and demand, and to waste, and may hinder the proportionate development of the national economy. At the same time, the enterprises and products can vary greatly in the degree of socialized production and in their closeness to the overall interests.

Therefore, apart from the principal products and the key enterprises which are vital to the national economy and for which mandatory plans are to be enforced, guidance plans may be used for many products and enterprises, with stress on the use of economic means to guide the enterprises in fulfilling state plans in a dynamic way. After fulfilling the tasks assigned by the state, even those enterprises for which mandatory plans are enforced should be permitted to use their remaining productive capacity to produce on their own initiative whatever is in demand on the market.

When guidance plans have to be fulfilled, the rights of individual enterprises to own and to use the means of production are more widely separated than are those of enterprises that are required to fulfill mandatory plans. Will such separation alter the character of the system of ownership by the whole people of these enterprises? The answer again is no. The decisive factor here is that through mandatory plans, the state can directly control the lifeline of the national economy and also directly appoint, or approve the appointment of, the leading personnel of these enterprises. Thus, through its economic and organizational power, the state can effectively control the enterprises that are required to fulfill the mandatory plans and can induce them to operate in the interest of society and to preserve the character of the system of ownership by the whole people. In other words, if only guidance plans are to be enforced in a socialist economy under the system of ownership by the whole people, the state will certainly lose its direct control over the means of production, and the system of ownership by the whole people will suffer losses or damage. If, on the other hand, mandatory plans are enforced among the key enterprises and guidance plans are enforced among the enterprises of secondary importance, the state may seem to be relinquishing some power of direct control over some enterprises' activities, although actually it can more effectively assert its power of control in another form. This will help consolidate and develop the system of ownership by the whole people instead of weakening it.

As for collectively owned enterprises, their means of production are owned by the collectives of the laboring masses. Therefore, in principle, the business activities of those enterprises can be carried out on their own initiative under the state's planned guidance, and the state should not impose mandatory plans on them. Whenever necessary, however, the state can still assign mandatory targets for the important activities of those enterprises related to the overall national economy. Under such circumstances, collectively owned enterprises should be willing and able to accept these plans for the following reasons: First, collective economy includes collective agriculture, industry, and commerce, all being organic components of the national economy. Their production, supply, and marketing activities are regulated by and can affect the other sectors of the national economy. Therefore, they must develop in harmony with the overall national economy in the interest of society and of the enterprises themselves. Second, under a socialist system, the peasants and workers of collectively owned enterprises are not only the owners of the means of production of these enterprises, but are also part of the main body of the system of ownership by the whole people. Therefore, their business activities fully embody social interests as well as their own requirements. It is precisely for this reason that we should generally use guidance plans for collective economy, and include their activities in the unified plan of the state in matters of prices, tax, credit, bonus and contracts. However, the fixed-quota system should be used for the purchase of important agricultural and sideline products by the state, such as grain and cotton, while mandatory targets should be assigned for the production and transfer of certain important products by the collectively owned industrial enterprises. Practice has proved that this method is not only necessary for the healthy development of the national economy, but is also basically advantageous to the development of the collective economy itself.

Apart from the enforcement of mandatory or guidance plans, certain economic activities--mainly the production and circulation of small commodities--can be flexibly organized by the production units or the individual laborers themselves in accordance with the changes in supply and demand on the market and within the scope permitted by state plans. This means bringing into play the regulative role of market regulation. The total output value of these products is not much, but they are of numerous varieties and are produced and supplied only seasonally and locally. It would be unthinkable for their production and exchange to have to be planned by the state. Such planning, if arbitrarily enforced, would lead to a reduction of quantity, a scarcity of varieties, and a deterioration of the quality of consumer goods for the people, all resulting in serious waste. This would be very inconvenient for the people. The production of these small commodities should not be planned by the state, but should be regulated by the market spontaneously. In this way, it will be able to meet the diverse requirements of the people and yield better economic results. Therefore, this type of regulation, though subsidiary and of secondary importance, is nevertheless necessary and a useful supplement to a planned economy.

In summing up, we can say that to suit the uneven development of productive forces and the various economic forms in our socialist economy, such as the system of ownership by the whole people, the system of ownership by the collectives, and the system of private ownership, different forms of economic administration, such as mandatory planning, guidance planning, and market regulation, should be used. In accordance with such a vision, it will be necessary for our former economic system, including the system of planned management, to be drastically reformed. Since this reform will involve quite a wide range of problems which must all be solved, it must not be treated as certain minor adjustments that can be taken lightly.

Another theory is that the use of different forms of management in a unified national economy may bring about conflicts among different principles governing different economic activities. As we have analyzed earlier, the use of different forms of management, such as mandatory planning, guidance planning, and market regulation, is necessitated by the various complicating conditions in a unified socialist economy, and the purpose is to ensure the flexible and proportionate development of the national economy. Therefore, all these different methods and forms have an identical orientation, and there should be no antagonistic conflict among them. Is there any contradiction? There is. Products of the same type may be partly distributed according to plan and partly exchanged in the free market, and even at different prices. Some products for free exchange may have been made of raw materials distributed according to plan, and some products for planned distribution may have been made of raw materials acquired from free exchange. If these transactions are not handled well, market regulation may conflict with planning, or over-rigid planning may hinder the regulative role of the market. We should be realistically aware of these possibilities, clearly define the scopes and limits of mandatory planning, guidance planning and market regulation, and correctly handle the contradictions among them in practical work so as to harmonize their relationships. This is certainly a difficult task. This task is unavoidable, however, and we cannot imagine that a simple method can be found for dealing with the complex social economic realities. Past experiences have proved that it would be impractical

to enforce mandatory planning exclusively, lest the economy would lose its vitality. On the other hand, if only guidance plans and market regulation are used, the planned economy will actually be weakened, thus giving rise to anarchy in social production. If we do not firmly uphold the leading role of the state sector of socialist economy, the socialist orientation of the other economic forms cannot be guaranteed; and if we do not firmly uphold the leading role of mandatory planning, then the effective implementation of guidance plans and the nature of market regulation in serving the socialist economy cannot be assured.

Of course, the scope of mandatory plans, of guidance plans and of market regulation cannot remain immutable. Then what will be the trend of development? Generally speaking, in the past the scope of our mandatory plans was too broad and divorced from reality. For some time to come, therefore, we should suitably reduce the scope of mandatory plans and enlarge the scope of guidance plans and, at the same time, make better use of the subsidiary role of market regulation. After a certain period, however, along with the development of social productive forces, the increase in people's administrative ability, and the improvement of work, we should gradually and appropriately enlarge the scope of mandatory plans according to the requirements of economic development. By that time, our socialist planned economy will develop to a higher stage and rise to a higher level.

II

In answering the question as to whether a system of mandatory planning is necessary we must understand and be able to interpret the close relationship between commodity production and commodity exchange. Some comrades feel that since commodity production and commodity exchange are still widespread in socialist society, the relationship between commodity and money must be utilized in a socialist planned economy. Therefore, the state's unified plan can be implemented only through price, credit, and other market mechanisms; if the system of mandatory planning is to be enforced, we will violate or even disrupt the commodity-money relationship that is objectively required. Some comrades have said even more plainly that since socialist enterprises, including enterprises owned by the whole people, are independent commodity producers, they are entitled to all the authority and benefits of commodity producers--in which case, not only are the economic relationships among them a type of commodity-money relationship, but also the relationship between them and the state is a form of contract relationship between the buyer and the seller. All work has to be carried out in the form of contracts instead of mandatory plans from the state.

Those comrades holding such a view have correctly affirmed the need to develop commodity production and commodity exchange and also have correctly proposed that in a socialist planned economy, the relationship between commodity and money should be realistically recognized and effectively utilized. However, they have not concretely analyzed the characteristics of socialist commodity production and commodity exchange, and thus they have come to the wrong conclusion that mandatory plans cannot be enforced. We contend that, instead of conflicting with socialist commodity production, mandatory planning can within certain limits be consistent with the socialist commodity-money relationship built on a foundation of public ownership.

Under the capitalist system, as we all know, the means of production belong to the capitalists, and the enterprises are all independent commodity producers in quest of their own economic benefits. Therefore, the production and business activities of these enterprises can only be regulated spontaneously by the market and carried out through fierce competition. There cannot be a certain social center to plan their activities. The conditions of a socialist economy are entirely different. Here, the means of production are publicly owned, and the system of public ownership takes two different forms--namely, ownership by the whole people, and ownership by the collectives. Since different economic interests still exist in the economic units owned by the whole people, the relationship between commodity and money still exists among them. However, this commodity-money relationship is not the same as the relationship between private owners with basically opposing economic interests. Instead, it is a relationship between public owners with different partial interests on a foundation of basically identical interests. Just because of their basically identical interests, the enterprises should be able to accept unified leadership in the form of state plans so as to ensure that the national economy will develop in a planned and proportionate way in the interest of society.

In the economic system of ownership by the whole people, implementation of the principle 'to each according to his work' has linked the quality of the work of the personnel and the result of the management of an enterprise with their material benefits. Therefore, exchange among enterprises should still be conducted according to the principle of exchange at equal value, and the relations of exchange have the characteristics of a commodity-money relationship. At the same time, we must also be aware that the relations of commodity exchange among enterprises owned by the whole people have characteristics of their own: (1) The orientation of the use of the means of production by the enterprises, with regard to what to produce and how much to produce, must be able to meet the requirements of social interests and socialized production, instead of being decided on the basis of the enterprises' own interests. (2) In deciding to whom and at what price the products of enterprises are to be sold, the enterprises' own interests must be subordinated to the social interests. (3) The exchange among enterprises does not involve a transfer of the right of ownership. (4) Good or bad means of production used by the enterprises should not cause any difference in the material benefits of the workers and staff members. All of these characteristics are different not only from those of the commodity-money relationship based on private ownership, but also from those of commodity exchange between different systems of public ownership. All this shows that the enterprises owned by the whole people are not independent commodity producers, and that their relations with the socialist state are not those of the buying and selling of commodities. In their business activities, they must first submit to the interests and requirements of the whole society, and thus they have the duty and responsibility of accepting the state's mandatory plans based on the overall interests. At the same time, the quantity and quality of the means of production and the orientation of their use are not directly related to the material benefits of the workers and staff members of the enterprise. Thus it will be possible for the enterprise to accept the state's mandatory plans. From what has been analyzed earlier, we can see that the existence of a commodity-money relationship among the enterprises owned by the whole people implies only the embodiment and affirmation of the difference

in material benefits from good or poor management and labor, but no typical relations of free production and free exchange. Therefore, as long as we do not obliterate or impair the material benefits to which the enterprises owned by the whole people are entitled, enforcement of the system of mandatory planning will not conflict with them, and far less will it disrupt the commodity-money relationship among them.

The situation of collectively owned enterprises is different from that of the enterprises owned by the whole people. Their means of production are owned by the broad masses of laborers, and exchange between them and the enterprises owned by the whole people involves the transfer of the right of ownership. Here, not only the result of their management but also the state of their means of production are closely related to their material benefits. Being different from the enterprises owned by the whole people, therefore, collectively owned enterprises are independent commodity producers, and in principle the state cannot enforce any mandatory plan among them. However, as we have analyzed in Part I, collectively owned enterprises are under the leadership of the socialist state and are closely related to the economic system of ownership by the whole people. Their production and business activities should also embody the requirements of social interests, and the interests of the whole society cannot be disregarded or impaired in the quest for their own interests. Therefore, the economic activities of collectively owned enterprises should also accept the guidance of state planning, and under special conditions the state can also assign them mandatory targets. Of course, there cannot be too many of these mandatory targets, and, if at all possible, their economic benefits must be considered; otherwise, they will practically lose their position as independent commodity producers, and the commodity nature of the economic relationship between them and the other economic units will be impaired. This would hinder economic development.

Sharing the view that the enforcement of mandatory plans would impair the relationship between commodity and money, some comrades feel that enforcement of mandatory plans would mean ignoring or even rejecting the regulative role of the law of value on production. This is a misinterpretation. In any form of planned management, the requirements of the law of value must be considered. Within the scope defined by state planning for regulation by the market, the law of value plays its regulative role spontaneously, basically deciding what to produce and how much to produce--thus determining the rise and fall of market prices. On the whole, of course, this regulative role is also restricted by state policies, plans and decrees, and is therefore different from that of the completely free market under capitalist conditions. Guidance plans are implemented mainly through the use of various economic levers related to the category of value. This is the way for the state to use the law of value to regulate the production and circulation of some products. Mandatory plans should also reflect as much as possible the demands of the law of value. In determining the varieties and quantities as well as the prices of products, the situation of supply and demand on the market and the value of products should be considered. The difference between mandatory plans and guidance plans is that the former has to be implemented with not only economic but also direct administrative means. From this, we can see that the law of value plays its role in all the three situations mentioned, although in different forms and varying degrees. The view that the law of value is applied in market regulation and guidance planning but ignored in mandatory planning is incorrect.

Since the law of value has to be utilized, why is it necessary for the utilization to take different forms? This is necessitated by the complexity of the motion of socialist economy. The law of value is not the only economic law playing its role under socialist conditions, since there are the basic socialist economic laws, the law of planned development, and so forth. In many situations, the roles of these laws have the same orientation, and it is precisely for this reason that we should, within certain limits, enforce guidance plans and market regulation, relying mainly on the role of the law of value to meet the requirements of the other economic laws. However, we must also be aware that in certain situations and certain periods, the roles of different economic laws do not produce the same results, and their different results may even conflict with one another. For example, the production and supply of certain basic means of subsistence may be short of the social demand, and their prices may for a long time have been far below their value. According to the law of value, we should raise the prices of these daily necessities of the people by a wide margin. In order to stabilize the people's livelihood and the economy and to meet the requirements of embodying the basic socialist economic laws and the law of planned development, however, we cannot immediately and sharply raise the prices of these commodities. Under such circumstances, instead of relying on the use of purely economic means or guidance plans, we must enforce mandatory planning so as to ensure the production of these products. The crucial problem here is that, in the final analysis, the partial and immediate interests of enterprises may sometimes conflict with the overall and long-range interests of the state and the people and it may be hard to find an effective method to protect all these interests. Under such circumstances, we cannot use economic means alone to induce the enterprises, which bear in mind only their own interests, to meet the requirements of the state and the people. Instead, we must use mandatory plans to ensure that these conflicts can be resolved in some way beneficial to the state and the people in the long run. Thus, violation of the law of value is necessary to a certain extent for the implementation of the basic socialist economic laws and the law of planned development. The law of value has to be temporarily and partially violated so that it can be permanently and comprehensively followed. That is to say, from the standpoint of ultimate economic results, this way may not be rational in the minor aspects, but is consistent with the economic law in the major aspects. In appearance it seems to be incompatible, but it actually is compatible with economic law.

Some comrades feel that mandatory planning has to be kept up for certain products at present only because these products are short of the demand and because we cannot raise prices as a means of stimulating production and restricting consumption. However, they believe, when production has been developed and the supply of both the means of production and the means of subsistence are in excess of demand, then mandatory planning will be unnecessary. This view, we think, deserves to be discussed. First, it is certainly true that the supply of many products is short of demand. However, if the supply is too excessive for demand, as it is in some capitalist countries, it is also a serious waste of social labor. Socialist economy calls for balanced supply and demand and a suitable reserve. Only thus can we rationally utilize social resources with good economic results. If economic means are used to regulate production so that social production will universally and markedly exceed social

demand, there will certainly be a waste of precious labor, materials and money, and this method cannot and should not be acceptable in a socialist economy based on public ownership. Second, if a certain amount of reserves must be kept after a balance of supply and demand is achieved, there are the questions of how large the amount should be in order to be rational, and which enterprise should produce and supply this amount in the most economical way. To solve these problems, provided that society can accurately estimate and reasonably arrange for production and supply, the simplest method is the use of mandatory plans, which can also minimize the losses. Conversely, if we rely on the regulation of price, which has to go through repeated fluctuations, and on blind competition to determine the rational amount of supply and to designate the enterprise to supply it, we will not be able to avoid the huge incidental waste. For example, many localities are now in a race to set up plants to produce certain durable goods, and many of these plants can produce only in small lots. Since the quality of products is poor and production costs are high, nobody wants them. If these plants have to be eliminated through competition, it would certainly be better for a comprehensive plan to be worked out and for production to be undertaken by designated plants, or for some of the plants to be closed, suspended, merged, or retooled in a planned way. Therefore, with the exception of those products whose demand cannot be accurately assessed by the state immediately, and whose production and circulation should be regulated by means of economic levers, why can't we use mandatory plans directly (including, of course, the setting of rational prices) for the production and circulation of those products which we can accurately assess, instead of taking the round-about way of price regulation? Third, to the state, the achievement of a balanced supply and demand in society is of particular significance. China has a large population and is economically and culturally backward. Its national resources are limited, and it is confronted with the arduous task of improving the people's livelihood and carrying on the modernization drive. Therefore, for a very long time to come, social supply and social demand can barely be balanced, and it would be impractical to expect an abundance of all products. When the supply of certain products is in excess of demand, it usually means an excessive consumption of financial and material resources in their production and the neglect of some other products in social demand. Under such a condition, we should strive for a balance in supply and demand by economizing on our resources as much as possible, instead of keeping a huge surplus of productive capacity or a huge reserve as a means of guaranteeing that social demands can be met. It is thus necessary for us to assess demand as accurately as possible and, when conditions permit, to organize production and supply through the direct use of mandatory plans.

III

One important reason for the abolition of the system of mandatory planning as advocated by some comrades is that the enforcement of such plans would restrict the enterprises' initiative and encourage blind commandism and bureaucratism in economic construction. It cannot be denied that in our economic work and planning in the past, serious blind commandism and bureaucritism did indeed exist, and that there was the problem of overcentralization and an over-rigid control of enterprises. It is undoubtedly necessary for these defects to be exposed and for ways and means to be found to overcome them. However, if all

these defects are indiscriminately attributed to the system of mandatory planning, in the belief that only the abolition of this system can eliminate these defects, this matter should deserve further discussion.

Will the enforcement of mandatory plans inevitably restrict the initiative of the enterprises? This question should be concretely analyzed. Enterprises are the basic-level units carrying out production and business activities. Unless their enthusiasm and initiative are aroused, it will be impossible to ensure the proportionate development of the national economy and the achievement of good economic results. In the past, the main reason that the initiative of enterprises was not brought into play as it should have been was that, in our planned management, the scope of mandatory plans was too broad and controls were too rigid. Furthermore, the enterprises were deprived of their necessary economic benefits, and the result of their management was not linked with their material benefits. In other words, the authority and benefits of the enterprises were ignored under the former system of mandatory planning, and, as a result, their enthusiasm and initiative were seriously stifled. This situation must be improved. In the future, our mandatory plans must conform to the following principles: 1) Mandatory plans must be confined to those economic activities for which such plans are necessary and feasible. They must not be enforced summarily and in disregard of objective conditions. 2) Even the enterprises for which mandatory plans are enforced should be given the necessary flexible power in production and management so that they can dynamically implement or supplement the state's plan according to the actual conditions and can have certain financial resources with which to improve their production and management. 3) The necessary relationship between the result of management and the material benefits of the enterprises should be specified. This includes the setting of rational prices and tax rates, and the retention of profits and the bonus system. 4) The preparation of mandatory plans should be based on a combination of above-downward and below-upward orders. The opinions of the enterprises and localities should be extensively solicited so that these plans can be practical. In this case, mandatory plans will serve to foster instead of restrict the initiative of the enterprises.

The state must give those enterprises required to fulfill mandatory plans not only the tasks but also the necessary facilities, such as raw and semifinished materials and fuel, to complete these tasks and dispose of their products. Therefore, we must not treat mandatory planning as merely a form of restriction on the enterprises' activities, and must note that it can provide fairly stable external conditions through which the enterprises can better display their initiative. In the sense that the enterprises must complete their tasks according to state plans, mandatory plans would certainly restrict the enterprises' activities. This restriction is inevitable when the plans scientifically reflect the objective requirements of socialized production. From the standpoint of the overall national economy, we can see that unless we directly plan for the key enterprises which are vital to the national economy and the people's livelihood, the coordinated development of the entire economy cannot be ensured. As for the enterprises, their compliance with scientific mandatory plans will mean, in appearance, some restriction on their activities, because they can no longer act as they please. Actually, however, these plans will help them to better display their enthusiasm and initiative in producing for social benefits and in accordance with the law of socialized production, instead of acting blindly.

Whether mandatory plans will restrict the initiative of enterprises depends solely on whether the plans are scientific and practical. Scientific mandatory plans will not restrict the initiative of enterprises; [such plans] restrict only the rash actions which may disrupt the coordinated development of the national economy. Unscientific mandatory plans themselves are a manifestation of rash action in violation of objective laws, and implementation of this type of mandatory plans will result in blind commandism and restrict the initiative of the enterprises. If mandatory plans are enforced for all enterprises, and all the complex and constantly changing economic activities are to be directed and managed by the state, the plans will certainly be divorced from reality and will result in blind commandism of one type or another. However, development of the national economy, as in other fields of social life, and the law of this development can be grasped and are not unfathomable. The realization of public ownership has transformed people into masters of their own social relations. People now can consciously plan their own economic activities, and are no longer manipulated by that "invisible hand" as they were under the capitalist system. Under socialist conditions, the state should, and is able to, make scientific forecasts and accurate estimates of the trend of the entire economy, the main proportionate relationships, the supply and demand situation of the major products, and the large construction projects, and accordingly can make practical arrangements to avoid the tremendous disruptions of economic crises. Of course, possibility cannot be equated to reality. The transformation of possibility into reality has to be determined by the quality of planning. In the past, because of "leftist" mistakes in guiding our economic work and the inadequate comprehensive balance, many mandatory plans were inconsistent with realities, resulting in serious losses and waste in the national economy. Since the Third Plenary Session of the 11th Party Central Committee, there has been a fundamental change in our economic guiding principles, and great improvement has been made in our planning. On the whole, however, the level of our planning is still fairly low, and mistakes cannot be completely avoided in our plans. The continued improvement of planning to make plans more scientific will be a long and arduous task. It will be a mistake if we fail to grasp this point. However, we can never insist that the enforcement of mandatory plans will certainly breed bureaucratism and blind commandism, and that mandatory plans must be abolished on the grounds that they may be accurate enough. If we so insisted, it would mean that we must refrain from eating for fear of choking, which would be even more preposterous.

To be more specific, a discussion regarding the need for mandatory planning or otherwise actually concerns the question of how to understand and deal with the economic function to a socialist state. Those comrades who are in favor of abolishing mandatory planning actually believe that a socialist country should not directly plan or control the business activities of enterprises, since such action would constitute administrative intervention which transcends the realm of economics and can easily encourage bureaucratism and blind commandism. This view does not conform to reality. A socialist country is not only an organization of political power but also the owner (on behalf of all people) of the means of production. Although its control over state-run enterprises, including the assignment of mandatory targets, may take an administrative form, such control is never a type of imposed "administrative intervention" outside the realm of economic relations, but rather is the embodiment

of the innate requirements of economic relations under the socialist system of ownership by the whole people. Between a socialist country and the enterprises owned by the whole people, there is always a relationship between leading and being led, regardless of the form it may take. This relationship is a reflection of the relationship between the owner and the users of the means of production. Under socialist conditions, we cannot imagine how the direct relationship between the state and the enterprises owned by the whole people can be totally severed. In this sense, the view of "separation between government and enterprises" cannot be realistic.

We cannot make a sweeping statement as to whether direct control by the state may encourage bureaucratism. There are two possibilities. If the control system is rational and the work is carried out properly, it will be possible to exercise correct control; otherwise, bureaucraticism will breed. This is the case with direct control through mandatory plans as well as with indirect control through guidance plans. As shown by our experiences over many years, we have had lessons from mistakes as well as inspiration from successes in the use of mandatory plans and administrative means to control the economy. Similarly, the use of guidance plans, prices and other economic means to control economy has also resulted in success as well as failure in our experience. Therefore, the crux of the problem is not whether direct control is necessary, but rather whether the concrete system of control and the work are realistic. In order that the state's economic control can be correct and effective to the maximum extent, appropriate delegation of power is necessary. Excessive and over-rigid state control will not only restrict the enthusiasm and initiative of the enterprises, but also divide the attention of the state's economic departments in charge and keep them so busy with their routine work that they cannot attend to the work of management as they should. However, the delegation of power still cannot completely solve the problem of scientific economic control by the state. The reason is that under socialist conditions, the state must exercise not only direct control over the macroeconomy but also indirect control over the important aspects of the microeconomy closely related to the macroeconomy; otherwise, it will not be able to ensure the harmonious and healthy development of the entire economy. In order that the state's economic control can be practical, it is necessary that, along with the suitable delegation of power, efforts should be made to improve the work of the state in direct economic control and to promote democracy in the state's economic policy decisions. Democratic procedures, methods, and systems must be adopted in making important economic policy decisions, in formulating, approving and revising plans, in choosing important economic measures, and so forth. A comprehensive, strict responsibility system should also be set up so that people cannot act irresponsibly or make irresponsible statements. This is a very important and complex task requiring long effort and a great deal of arduous work. We must undertake these tasks and perform them as best we can. If we ignore the importance of this task and only hope that the delegation of power will solve the problem of scientific economic management, we will not only fail to ensure the correctness of various economic policy decisions for the enterprises, but we will also weaken or nullify the state's function of direct economic control. This would obviously be incorrect.

Whether the system of mandatory planning should be enforced and how such a system should be enforced constitute a very complex problem. What have been presented here are only our tentative views, to be studied and discussed by everyone. We feel that in correctly solving this problem, we should follow two basic criteria: first, we must firmly uphold the basic Marxist theories on socialist economy; and second, we must adapt our work to the practice of economic construction in our country. We should also study the theories of foreign scholars and the experiences of foreign countries and draw whatever is good from them. However, our work must be based on the viewpoints of Marxism-Leninism-Mao Zedong Thought and on a summation of our own experiences. In this process, we cannot be fettered by certain traditional viewpoints, systems, or methods of the past. We must liberate our minds, seek truth from facts, and be good at studying new developments and arriving at new conclusions. Instead of discussing problems summarily and without concrete analysis, we should separate the defects of specific systems and work from the basic systems and basic principles of socialism. We believe that only such a means of discussing and studying problems can gradually reconcile the divergent views on the question of mandatory planning.

(Edited by Li Xuekun [2621 1331 2492])

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NATIONAL POLICY AND ISSUES

INDUSTRIAL FINANCIAL MANAGEMENT LECTURE SERIES BEGINS

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[Lecture No 1 by Li Ruxun [2621 0320 6064], assistant professor of the Shanghai College of Finance and Economics: "The Basic Concepts and Basic Tasks in Industrial Financial Management"]

[Text] In order to meet the needs of truly rectifying and strengthening financial management in the state-run enterprises, we have invited Li Ruxun, assistant professor of the Shanghai College of Finance and Economics, et al, to set up a lecture series on "Industrial Financial Management" in this journal. This lecture series will be in 12 lectures: Lecture 1 is on the basic concepts and basic tasks in industrial financial management; lecture 2 is on financial management and economic accounting; lecture 3 is on industrial fixed assets (part 1); lecture 4 is on industrial fixed assets (part 2); lecture 5 is on the management of industrial floating assets (part 1); lecture 6 is on the management of industrial floating assets (part 2); lecture 7 is on the management of production costs (part 1); lecture 8 is on the management of production costs (part 2); lecture 9 is on income from sales and accounting; lecture 10 is on enterprise accumulation; lecture 11 is on planning for financial revenue and expenditures; lecture 12 is on financial analysis. We will carry one lecture in each issue and will finish running all the lectures in 12 issues--The Editor.

I. Basic Concepts of Industrial Financial Management

The financial affairs of socialist industrial enterprises take place while the enterprises are carrying out production management. Under the guidance of the party's principles and policies and the state plan, [the enterprises] organize the sources of funds, carry out the distribution of funds, and supervise the use of funds, and in doing so establish economic (monetary) relations in the various aspects. The financial affairs of industrial enterprises are the basis of the state's financial system of organization.

On the basis of the system of public ownership, our country practices a planned economy and implements production and circulation in a planned manner. This

forms the main body of our country's national economy and at the same time permits the market to regulate a portion of the products. The existence of a commodity economy determines that the law of prices will, within a definite area, spontaneously play a regulatory role; therefore, in the economic relationship between the production and distribution of labor products, the use of value and monetary forms becomes inevitable. Through the circulation of money, an economic relationship among the various economic organizations is realized; this is also a monetary relationship. The monetary relationship comes into existence within the realm of material production. After its inception, it spreads to the entire course of reproduction (production, distribution, exchange, and consumption). Everyone knows that the realm of material production is the realm for turning out products and providing for economic labor service, and is the realm for realizing the reproduction of materialized labor as well as for creating surplus products. The monetary system of relationship within the realm of material production forms the essence of the financial affairs of socialist industrial enterprises.

With regard to the realm of production, the monetary relationship is embodied by the financial affairs of industrial enterprises is a monetary relationship between the enterprises and the state, between one enterprise and another (as economic organizations), between the enterprise and its staff members and workers, and among the various links and various units within the enterprise. Concretely speaking, the monetary relationship between the industrial enterprise and the state is mainly a relationship of payments and appropriations of funds between the enterprise and the state budget, and a relationship of credit accounting between the enterprise and the bank. The monetary relationship between the industrial enterprise and another enterprise or economic organization is mainly a mutual accounting relationship that comes into existence through supply and sales activities. The monetary relationship between the industrial enterprise and other management departments is mainly represented in a relationship of redistribution of funds. The monetary relationship within the industrial enterprise is represented mainly in a monetary accounting relationship among the various independent accounting units internally (the basic production units, basic construction units, staff members and workers collective welfare service units, and so forth), as well as in a monetary accounting relationship that comes into existence among the staff members and workers through payments in labor remuneration and labor insurance and welfare. These monetary relationships are connected with the formation, distribution, and use of social products and national income. In enterprises' financial affairs, we must consciously make use of these monetary relationships to influence the course of reproduction and encourage the enterprises to develop production according to the needs of society. We must practice strict economy, continuously tap internal potential, and raise economic results in production; we must distribute and redistribute social products and national income and guarantee the implementation of the principle of "to each according to his work" and the formation of socialist accumulation. With smooth progress in the regulation and reform of our national economy, and under the guidance of a planned economy, market regulation is giving full play to its role as a helper. At the same time, people are paying more and more attention to the use of such value forms as prices, cost, profit, taxes, credit, fund payment, and fixed payment. The monetary relationship within the realm of material production is developing day by day. The scope of its role is continuously expanding, and its influence on production is continuously deepening.

The monetary relationship manifests itself as the movement of money and funds in the course of reproduction. To have an all-round understanding of the basic concepts of industrial enterprises' financial affairs, we must also investigate the entire process of the movement of industrial funds. The first stage of the movement of industrial funds is the formation of funds, which is the appropriation by the state to the state-run industrial enterprises of fixed assets and floating assets. This is the starting point of the movement of funds. The second stage of the movement of industrial funds is the use by the enterprise of the monetary funds appropriated by the state to purchase production materials and to establish the necessary labor measures and labor targets. Here, the enterprise funds begin to enter the course of production. In the course of production, the funds undergo a change from a monetary state into a material state. Here, it is both a course of consumption of materialized labor and active labor and a course of funds accumulation. The third stage of industrial funds is the sale of products and the completion of the conversion from cost fund to monetary fund. At the same time, through the distribution of monetary funds there will be realized a distribution of social products among the state, enterprise and staff members and workers of the enterprise. With the termination of the course of production, the movement of funds will begin at a new starting point.

Thus it is not difficult for us to see that the movement of industrial funds and the monetary relationships within the realm of industrial production constitute a relationship in form, content, appearance, and essence. On the one hand, the monetary relationship is manifested as the movement of funds in the course of reproduction. Without a monetary relationship within the realm of industrial production, no movement of industrial funds can take place. On the other hand, the continuous circulation of funds embodies the monetary relationship and is a necessary factor for realization of the monetary relationship. Without a corresponding movement of industrial funds, the monetary system of relationship within the realm of industrial production--and even within the entire realm of material production--cannot exist. The unity of the movement of funds of the industrial enterprises and the monetary relationships within the realm of industrial production forms the industrial enterprises' financial affairs. Because the monetary relationship and the movement of funds embody specific intrinsic characteristics and unique laws of movement, financial affairs are singled out from the economic aspect of production and are distinguished from the ordinary realm of economics. Correspondingly, financial work is also singled out from ordinary economic work and becomes a special realm of activities, which in turn becomes the basis for the socialist financial system of organization. The relatively independent character of financial affairs has enabled us to use it to directly influence production, supervise production, and serve production.

Summing up the above, it can be concluded that the financial affairs of socialist industrial enterprises are the economic category of a socialist society. They embody the monetary system of relationship, which exists objectively on the basis of the production of products and the formation, distribution, and use of the national income within the realm of industrial production. They manifest themselves as the movement of funds in the course of reproduction.

In practice, we must oppose the one-sided understanding of financial affairs as the collection and payment of monetary funds and disregard objectively existing monetary relationships. We must also prevent the departure from the organization and circulation of funds, and empty talk about handling the monetary relationship. Doing so will be unfavorable to production.

II. The Basic Tasks of Industrial Enterprise Financial Management

The basic tasks of financial management in a socialist enterprise are implemented in accordance with the objective demands of the law of economics and in accordance with the principles and policies of the party and the state. They use the monetary and value forms to carry out comprehensive management over the production management of the enterprise. They organize and utilize the monetary relationship in a planned manner, serve the development of production, and carry out supervision over the course of production and management. The primary contents of financial management include the management of fixed assets, the management of floating assets, the management of product cost, the management of income from sale and accumulation, as well as the management of funds for special use. The basic tasks of financial management in an industrial enterprise should focus on raising economic results, rationally organizing funds and managing funds well; take into consideration the effects of the use of the funds; practice financial supervision; promote the fulfillment of the state plan by the enterprise; guarantee the completion of the financial tasks that are to be handed over to the state, give play to the inherent function of management regarding active participation in policymaking and continue to raise the profit level.

First, we must collect and organize the sources of funds in a planned manner, manage the funds well, and take into consideration the effects of the use of funds.

The funds of a state-run industrial enterprise are formulated on the principle of economic accounting. The state bestows on the enterprise its proper rights, appropriates to the enterprise the fixed assets and floating assets that are needed in production, and asks that the enterprise carry out independent accounting and take into consideration the results under the prerequisite of fulfilling the state plan. At the same time, it bestows on the enterprise the right to obtain loans from the bank in accordance with the needs of production. The tasks of financial management are to first obtain such funds through a definite monetary relationship and to satisfy the needs of production. The tasks of financial management are to first obtain such funds through a definite monetary relationship and to satisfy the needs of production. The main portion of the fixed assets is appropriated by the state budget to the enterprise through a basic construction investment appropriation. The other portion of the fixed assets is provided by the state budget and the Chinese People's Construction Bank through special item investment appropriation and loans. The enterprise with extended rights is provided for by profit retention. The permanent required portion of the floating assets is appropriated principally by the state budget, and the temporary required portion of the assets is taken care of by bank credits. The adoption of the two different organizational forms of appropriation and loans in the sources of enterprise funds is done mainly in order to safeguard the needs of production and at the same time to

economize on state funds and enable the enterprise continuously heighten the efficacy of fund utilization. In collecting and organizing the sources of funds, we must not only feel satisfied with the acquisition of the funds; the important issues are the form of monetary relationship through which we obtain the funds and whether or not the organization of this monetary relationship can enable the enterprise to economize on the use of funds without repayment and to care about the raising of the results of the utilization of funds on the basis of its own economic interests. These are important issues in financial management tasks.

The tasks of financial management also include strict control over the use of the various funds, and implementation of special funds for special use and economical use. Only by managing funds well can we guarantee the normal circulation of funds and the persistent launching of production and can we guarantee the effective use of state funds. We must control the economical use of funds, set up fixed assets in accordance with our needs, control material reserves within a fixed amount, and prevent capital and funds from lying idle. Only by using funds well can we fulfill more production and sales tasks with a specific amount of funds and provide more accumulation for the state.

Secondly, with regard to the economic activities of an enterprise, we should implement financial supervision and enable the enterprise to fulfill the state plan in an all-round manner and guarantee the completion of the financial tasks to be handed over to the state.

Financial supervision is a form of economic supervision that is implemented with the aid of money and the monetary relationship. Monetary supervision over the economic activities of an enterprise is organized on the basis of the state's principles and policies, plans, and system. The purpose lies in economizing consumption, preventing waste, increasing production, and raising profit; it also lies in guaranteeing the completion of the financial tasks that are to be handed over to the state and the realization of the interests of the state, the enterprise, and the staff members and workers.

Because the monetary relationship runs through the various links in the enterprise's supply, production and sales, and the movement of funds runs through the entire course of economic activities, the scope of financial supervision therefore includes the various aspects in the course of reproduction and involves the entire process of the formation, distribution, and use of funds. All industrial enterprises must strengthen their supervision over the results of the use of active labor, labor tools, and labor targets; strengthen their supervision over the total results of economic activities; and, on the basis of improving and expanding product varieties and raising quality, enable the enterprise to increase the quantity of the products that are saleable, raise labor productivity, lower product costs, reduce the use of funds without repayment, increase accumulation, and fulfill the state plan in an all-round manner.

We should be able to see that in enterprises' financial management over the past few years, the economic system of organization has not been perfect. Many enterprises still could not truly be channeled into the direction of the economic accounting system of independent accounting and matching of income

and expenses. Furthermore, the economic levers are not working properly. Such levers as prices, taxes, profits, and interest have definite shortcomings. Thus, the effectiveness of financial supervision has been weakened. However, this should not be the basis for relaxing our supervision. On the contrary, we must adopt the necessary measures to remedy the temporary shortcomings. For instance, we should strengthen administrative intervention and, within the enterprises themselves, strengthen the economic accounting system and establish an internal monetary system of relationship. By mutually practicing economy and promoting each other, we will be able to give play favorably to the role of financial supervision.

Thirdly, we should take the initiative to strike out, make a breakthrough together, take part in policy decisions, and open up financial resources.

In light of the relationship between production and financial affairs, financial affairs are subordinate to production and at the same time are relatively independent of production. Thus, financial affairs must not be put in the passive position of satisfying the receipt and payment activities of monetary funds, but must take the initiative to strike out, deeply tap the potential for increasing production and practicing economy, promote production, and go further to open up financial resources. Financial supervision is a financial function and a component part of the socialist financial system. In light of this, the financial department and the departments holding other functions within an enterprise occupy positions in which they supervise and are supervised. But there is unity in this opposite, because the economic interests of the enterprises are consistent and the economic interests of the socialist enterprises and the economic interests of the state are basically consistent. Thus we must fight together, participate in business policy decisions, and continuously raise the economic results. With regard to business policy decisions, the task of financial management is mainly to conduct analysis on the economic rationality of investments with regard to policy decisions and measures that are under discussion, so as to determine the economic results of the business policy decisions. For instance, a policy decision to lower costs often may lead to the following question: Should we replace the equipment or conduct technological transformation of the equipment? Which is of greater benefit? In this respect, we must compare the present value of investment with the present estimates of future profit on the basis of the viewpoint of monetary time and value. Thus, we can make a rational choice that suits the economic results in a policy decision to carry out replacement or technological transformation. Once we have formulated a business policy decision, we must channel it into our financial planning and guarantee the realization of the policy decision in financial affairs.

In order to guarantee the realization of the basic tasks of financial management in the new period, we must liberate our thinking, seek truth from facts, respect the objective laws of economics, pay attention to scientific methods, continuously sum up experiences, pay attention to combining theory with practice, and render proper contributions in the grand task of promoting an all-round upsurge in the socialist economy.

Review Questions for Thought

1. How should we understand the basic concepts of financial affairs?
2. What are the basic tasks of financial management of an industrial enterprise?

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ECONOMIC MANAGEMENT

WAYS TO IMPLEMENT ENTERPRISE CONSOLIDATION SUGGESTED

Jinan DAZHONG RIBAO in Chinese 2 Feb 83 p 1

[Article by Fei Yunliang [6316 0061 5328]: "Doing a Good Job in Enterprise Consolidation in the Spirit of Reform"]

[Text] The leading group responsible for provincial enterprise consolidation recently sent out its suggestions for carrying out enterprise consolidation work in the whole province throughout the year. All prefectures, municipalities, departments and enterprises in this province are required to do a good job in enterprise consolidation in the spirit of reform to strive for new progress in the new year.

Enterprise consolidation work throughout the province must be carried out this year by way of implementing it in an all-round way, stressing the main points, giving guidance to enterprises in line with different categories, and checking and accepting in turn. In the entire course of enterprise consolidation, we must consistently penetrate the spirit of reform so that we can carry out reform while consolidating. The main point is to grasp the large enterprises and lay the small enterprises aside. We have to make progress while we are carrying out reform and to demand [economic] results from consolidation. According to a directive given by Premier Zhao Ziyang which maintains that "consolidation of existing enterprises all over the country must be completed in the next 3 years," the target of enterprise consolidation in our province in the next 3 years is that the 140 large enterprises throughout the province are required to complete consolidation in turn by 1984. The more than 4,000 presentable enterprises at the county level and above will start to consolidate and complete their work by three stages this year. On the whole, 50 percent of them will be checked and accepted this year, 30 percent next year and another 20 percent in 1985. In order to victoriously accomplish the task of enterprise consolidation, we must get a good handle on the following:

It is necessary to do a good job in consolidating the leading groups in enterprises as required by the "four modernizations." In the first half of this year, efforts must be concentrated on doing a good job in consolidating the leading groups in large- and medium-sized enterprises as well as enterprises at the county level. By the end of this year, we must strive to accomplish the consolidation of leading groups in enterprises at the county level and above. It is necessary to break with old conventions and promote intellectuals who

combine ability and political integrity and who are in the prime of life to leading positions at all levels to make the composition of the leading groups reasonable and to enable professionally competent people to work on jobs for which they are well trained so that eventually people who know production and management may hold more than two-thirds of the positions on these leading groups.

We must further perfect the economic responsibility system, conscientiously study and spread the experience of the Shoudu Iron and Steel Works, insist on the combination of responsibility, power and benefit, and put the interests of the state above everything. What we must stress is concentrating our efforts on implementing the economic responsibility system within enterprises. It is not advisable to "impose uniformity on all enterprises" with regard to their forms of profit retention. This must be done in various forms upon the pre-supposition that a stable increase of revenue is assured.

Our main point this year throughout the province will center on handling well the 29 large enterprises of which either their annual taxes on profits exceed 30 million yuan, or taxes on profits are less than 30 million yuan but they are significant in the national economy. By paying special attention to large enterprises, it is necessary to make sure that departments and individuals must take up their responsibilities and that work must be done within a specified time. It is particularly necessary to consolidate the leading groups, to strengthen the leadership system, to perfect the economic responsibility system within enterprises, and to insure the production facilities which are required by enterprises and the right to self-management which they are entitled to enjoy.

We must conscientiously implement the three regulations including the "Provisional Regulations Regarding the Workers' Congress of the State-Operated Industrial Enterprises" and strengthen the leadership system in enterprises. It is necessary to enhance the level of awareness in implementing the "three regulations" by way of conducting training courses at each level.

We must further reinforce and strengthen the organizations responsible for enterprise consolidation in order to set a specialized group to concentrate on enterprise consolidation, similar to what is being done in promoting production. We must put into effect the system of departmental division of labor with each department taking up its own responsibility under the unified leadership of the party committees. In carrying out enterprise consolidation, we must combine it with readjustment, restructuring, technical transformation, the consolidation of the party organization and the building of spiritual civilization within enterprises.

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CSO: 4006/317

ECONOMIC MANAGEMENT

DOING AWAY WITH 'IRON RICE BOWL' SYSTEM URGED

Guangzhou YANGCHENG WANBAO in Chinese 23 Feb 83 p 2

[Article by Zheng Yonghui [6774 3057 2547]: "Why It Is Necessary To Do Away With the Iron Rice Bowl System"]

[Text] Origin of the "Iron Rice Bowl"

The present fixed-job system is commonly called the "iron rice bowl" system, which is not a necessity in socialist countries, especially not a manifestation of the superiority of socialism. It is a product under the specific historical circumstances of our country.

The so-called fixed-job system means that the placement of staff and workers of the people-owned enterprises and public agencies is taken care of centrally by the state. Employees come, but never go. They can only be promoted, but not demoted, and they cannot be dismissed. In the early years after the founding of the People's Republic, the state adopted the policy of "totally guaranteed" the placement and employment of the staff and workers of bureaucrat-capitalist enterprises and former employees of the Kuomintang state organizations, in order to resolve the unemployment problem left over by the old society. The Government Administration Council stipulated on 25 July 1952, that "All state- and private-owned enterprises must adopt the total guarantee policy with regard to the staff and workers who have become surplus, due to the implementation of production reform and rational enhancement of labor productivity. Their original enterprise units are to pay them their original wages (to be calculated into these enterprises' cost), and must not discharge them." This was entirely correct at that time. Later on, because of the needs for the development of the country's construction, the scope of "total guarantee" was further expanded in 1954, even the placement of persons released after serving a sentence was "guaranteed" by the state.

Based on understanding, there were no fixed-job system and "total guarantee" policy in the Soviet Union, not even during the Lenin and Stalin eras, and neither in Romania, Yugoslavia, Hungary, Poland, and Democratic Germany, etc. Instead, a contract working system is implemented with which people can come and go. Thus we can see that the fixed-job system was originated and developed under our country's specific historical circumstances. Of course, the drawbacks of this system became obvious already at the end of the fifties and the beginning of the sixties. In a 1958 report of the Sichuan provincial party committee approved and submitted to the Central Committee it was pointed out

that the most distinct problem of the current labor system was that "the recruited workers and staff can come, but not go," and "no matter whether or not there is work, workers cannot be dismissed, and cannot be transferred to different types of work and different factories." In view of these facts Comrade Liu Shaoqi proposed in 1958 to reform the system. He proposed that, based on the conditions of our country, we should adopt two labor systems. The enterprises can hire or dismiss. They should use more temporary, less permanent workers. The new system of new factory-new employees and the old system of old factory-old employees should be implemented, aiming at gradually changing the present fixed-job system. Meantime, wage distribution system and labor insurance benefits system must be appropriately reformed. Comrade Shaoqi's idea was trail implemented before 1966, in a number of places, and received good results. Unfortunately, due to various reasons, especially due to the destruction of the "Cultural Revolution", his proper proposition was not realized. During the "Cultural Revolution", with the interference of the ultra-"Left" line, the scope of "total guarantee" was further expanded, thus the "bundle" on the state became heavier and heavier, and the contradictions became more and more distinct.

Disadvantages of the "Iron Rice Bowl" System

The current "iron rice bowl" system violates the socialist economic principle, is unsuited to the coexistence and development of various economic elements, and does not help in making our economy work. Our socialist economy is still a planned commodity economy. The enterprises need labor force combined with the means of production to satisfy their economic and technical demands. They can make changes as the conditions of their production change, that is, the enterprises must have certain authority to adjust the labor force, so that the labor force can be moved rationally within the enterprises. For example, our country is currently developing multiple economic elements. We especially need to develop commerce, service trades, etc. There is need to rationally move labor force among the enterprises of various ownership systems. However, because of the differences in welfare benefits between the fixed system and other employment forms, the people are attracted to strive for jobs in the people-owned units. Some unemployed people, including their parents, would rather wait for fixed-jobs with less daily pay than for now available collective and individual jobs with more pay, thus they have imperceptibly increased resistance in opening all avenues for employment and have also encouraged the unhealthy tendency of "entering the back door". If we could open up this "forbidden zone" of the fixed-job system, all enterprises can recruit their own workers and choose outstanding ones for employment based on their production needs, after going through relevant hiring procedures examined and approved by the responsible authorities. In this way, various economic elements will be more and more prosperous and flourishing because of the active mobilization of the labor force, thus helping accelerate the development of the national economy and the improvement of the people's livelihood.

The present fixed-job system is unfavorable to the improvement of productivity. The enterprises cannot select, according to the changing situations of their production, their own workers both in terms of quantity and quality. People that the enterprises need cannot get in; those the enterprises do not need cannot get out. The enterprises are forced to place staff and workers who do not

meet the needs. So much so that they are unable to handle those who have violated the law and discipline and refused to mend their ways despite repeated admonition. Thus the front line personnel of the enterprises have been decreasing year by year and rear-service personnel have been increasing. The enterprises have more hands than needed, and their burden is becoming heavier and heavier. Meanwhile, in the process of production, the enterprises require that their staff and workers continue to advance in depth and width of their knowledge in production technology. But the "iron rice bowl" system fetters the workers' consciousness to master science and technology. A number of people do not strive to make progress, do not care about studying or working; do not exert themselves. Everyone is holding on to his "iron rice bowl", feeling secure without fear of losing it. Furthermore, the fixed-job system is the cause that the workers cannot choose freely their occupation, develop their own special skills, and their creative ability is fettered. All this has shown that this irrational fixed-job system is the main cause of the long delayed improvement of our labor productivity.

The present fixed-job system is also unfavorable to the enforcement of the socialist principle of distribution "from each according to his ability and to each according to his work." Once a worker gets his "iron rice bowl", no matter what economic results the enterprise achieves, his salary can only be raised, but not reduced, regardless whether he does a good job or not, and how much work he is doing. The enterprises have no authority to dismiss, still less to expel, those staff and workers who severely violate labor discipline, are not subordinated to their assignments, stay away from work over a long period of time without good reasons, and even commit crimes. This seriously dampens the enthusiasm of staff and workers of the enterprises and obviously runs counter to the principle of distribution "from each according to his ability and to each according to his work."

Do Away with the "Iron Rice Bowl" System, Substitute the Fixed-Job System with That of Contract Hiring:

Since the fixed-job system's drawbacks are so obvious, we must reform it, comprehensively pushing for a contract hiring system which basically has the following characteristics and contents:

- 1) The enterprise and the worker sign labor contract, free to get in and out. The enterprise may recruit and hire, selecting good workers for employment according to its production needs and following certain examined and approved procedures. The worker can choose his occupation according to his own technical skills and interests. In order to guarantee the quality of the enterprise's employees, there must be a probationary period after the hiring, and upon the completion of the probationary period, the enterprise and the employee sign the labor contract which includes the employee's tasks, duties, salary, benefits, labor discipline, etc. During the probationary period if some one is found unsuitable to the set conditions, he can be dismissed.
- 2) The worker's pay and benefits can go up or down. The present irrational pay system must be done away. Grading and grade evaluation, based on workers' qualifications and performance, must be implemented. Unified wage standards

should be formulated by provinces and cities with appropriate salary grades, according to workers' technical and professional level and the degree of their contribution. The salary for a worker hired by a new unit should be reassessed, based on the person's qualifications. The enterprises have the authority to adopt various wage forms, closely combining the quality of production management and economic results with the degree of the workers' contribution. They can raise or cut salaries, moving them upwards or downwards.

3) New social and labor insurance system is established to solve, with overall planning, the employees' retirement and other social insurance problems, to free the employees' mind of their fear of disturbance in the rear. This is the significant guarantee that the new contract hiring system gives. In fully bringing the superiority of socialist system into play, we must uniformly enhance the social and labor insurance system, concerning the contracted employees' retirement, disability caused on job, unemployment aid, death, aid for surviving families of workers died on the job. Dismissed or discharged workers can be given certain unemployment aid during the period of their unemployment according to the length of their continuous service. The sources of social insurance premiums are: one, from the current labor insurance premium in enterprise units and public agencies; two, from the enterprises' welfare funds; three, the monthly small amount of workers' mutual aid fund. The enterprises are responsible for the workers' labor insurance to be transferred to the overall social planning. This is a significant reform. The government must establish appropriate insurance organizations, labor insurance companies or present labor service companies to specially administer the contracted workers' social insurance. In addition, the government must establish and improve the present organizations of labor administration, that is, the labor service companies which must organize, adjust, take in and send out in large numbers and train employed workers, gradually take up the responsibility of adjusting the distribution and re-distribution of labor force of the society, becoming the hub of regulating labor force, and taking over some functions from the factories and enterprises, so that the enterprises can concentrate on production.

At the present stage of socialism, because the labor of the workers must be rewarded and the enterprises must consider the state's interests and the enterprises' collective interests, the combination of means of production of socialist society and labor force must be conditional, not unconditional. The contract hiring system is implemented by adopting the form of labor agreement, closely combining the means of production and the labor force, so that the workers must give equivalent labor (including various deductions) in exchange for equivalent pay by the enterprises. At the same time, the system can effectively ensure the workers' labor rights. The present fixed-job system, however, does great damage to this combination. It has brought about the phenomenon of "eating out of the same big pot". Some comrades do not understand the characteristics of socialist labor, mistakingly taking the "iron rice bowl" as the superiority of socialist system and as the expression of socialist workers being masters of their own country. As a matter of fact, this has seriously hampered the evolvement of our socialist society's superiority. With the implementation of contract hiring system, this situation will greatly change. The workers, in the process of integrating with the means of production, will not only enjoy full labor rights, but will also have to take appropriate economic responsibilities and receive material benefits accordingly. This way, they can truly handle correctly the relationship of the state, the enterprise and the individual.

ECONOMIC MANAGEMENT

CORRECT UNDERSTANDING OF 'IRON RICE BOWL SYSTEM' URGED

Guangzhou YANGCHENG WANBAO in Chinese 23 Feb 83 p 2

[Article by Yi Duming [2496 4206 6900]: "In Defense of the 'Iron Rice Bowl System'"]

[Text] What does "iron rice bowl" mean? As far as people know, "iron rice bowl" means that a person has a secure job and that he is unlikely to become jobless and can feed himself without worrying about hunger. It seems that it is not a bad thing, but is absolutely worthy. Before liberation, the writer was often jobless and suffered from hunger. Because there was no "iron rice bowl" I, therefore, joined in the revolutionary ranks and engaged in revolution. The purpose of the revolution was to let the people of the whole country each have an "iron rice bowl." Many of our revolutionary comrades struggled all their lives so that the people of the whole country could each have an "iron rice bowl." (Of course, there were still nobler ideals.)

However, recently there are quite a number of people who go so far as to complain about the "iron rice bowl." They think that production comes to a standstill and enterprises are at a loss, workers are disobedient and are not easy to direct, they lack discipline and their enthusiasm cannot be aroused, all as a result of the "iron rice bowl" system. It seems that all faults are to be attributed to the "iron rice bowl" and that the "iron rice bowl" is really guilty of unpardonable evils. As a result, many leading cadres in enterprises are inclined to deem hiring temporary workers who will never be allowed to become regular staff as an all-powerful magic weapon. They even maintain that temporary workers are much better than regular staff and workers because temporary workers have greater initiative and once they are admitted as regular staff, they will no longer be obedient or enthusiastic. Views like these are numerous, this is really unjust. Consequently, the "iron rice bowl" has suffered an unredressed injustice. In fact, the reason why certain enterprises cannot move ahead or why they suffer losses is that the leading groups are incompetent, and that subjectivism and bureaucracy give rise to different opinions among staff and workers making it impossible to bring their initiative into play. There are other reasons: the leading groups regard enterprises as their own private kingdoms and engage in irregularities such as practicing unhealthy tendencies or going through the back door which result in serious wastes; mismanagement results in low output and inferior quality of products, and enormous wastes; leading groups are blind in setting production goals because they do not attach importance to science and market research; or they

are unable to arouse the enthusiasm of the workers because they do not implement the production responsibility system but "eat out of the same big pot." All of these have nothing to do with the "iron rice bowl." Why should they obstinately attribute these faults to it? As the saying goes: "One who does not know how to pole a boat complains about the winding river." It is really lamentable. Therefore, the writer wants to cry out for the "iron rice bowl system" with a heavy heart. I hope that the concerned authorities will rehabilitate it. I wish that the people of the whole country could each have not only an "iron rice bowl," but a "gold rice bowl."

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ECONOMIC MANAGEMENT

RESPONSIBILITY SYSTEM INNOVATIONS TERMED BENEFICIAL

Beijing JINGJI RIBAO in Chinese 21 Feb 83 p 1

[Article by Staff Reporter: "Persist in Being Realistic, Boldly Experiment, and Don't Attempt 'One Solution for All Problems'"]

[Text] Recently, when appointing responsible comrades to report to the nation on the situation of reform work, the Ministry of Light Industry proposed 10 forms of the management contract job responsibility system, based on a summary of the experimental experience of each area. The Ministry of Light Industry believes that at present there still isn't one set of ready-made patterns which can be applied indiscriminately to contracts, and that it is necessary to persist in being realistic, to boldly experiment, and not to attempt "one solution for all problems."

Based on the tried reform experience of each area since 1980, the Ministry of Light Industry has summarized 3 types and 10 forms of the management contract job responsibility system.

The first type is medium and large-scale state-run enterprises, and the major forms are:

Responsibility for Profit and Loss. Taking the 1979 output of 130,000 as the base for bicycle companies and specifying no change for 3 years, the government of Anyang Municipality in Henan carried out profit and loss responsibility in May 1980. The companies implemented such methods in the factories as domestic pricing and purchase of products; in factories with losses they carried out quota-loss subsidies, not subsidizing for above quota, and reducing losses separately; in collective enterprises they carried out self-responsibility for profits and losses, and above-quota self-marketing; in 1982 they again further resolved the companies' bearing of economic responsibility as certain quotas of separate responsibility for the factories. Economic results have improved markedly.

Profit Retention. The proportion retained in the Jiamusi papermill prior to 1981 was 6.1 percent, but in 1982 it was adjusted to 10 percent. The factory implemented different forms of the economic responsibility system in the shops and administrative offices and achieved close integration of responsibilities, rights, and benefits.

Using Taxes to Represent Profits. In 1981, Chongqing Municipality began to conduct comprehensive experiments in using taxes to represent profits, specifying no changes for 3 years. The enterprises pay three taxes and two fees to the state, and the unevenness of hardships among the enterprises is regulated by the light industrial bureaus.

The second type is medium and large-scale collective enterprises, and the major forms are:

Independent Business Accounting and Self-Responsibility for Profits and Losses. In 1980, Liaoning Province's two light industrial collective enterprises basically carried out independent business accounting and self-responsibility for profits and losses, and the results were outstanding.

Responsibility for Progressive Tax Increases. The government of Henan Province has decided to implement methods of responsibility for progressive tax increases in collective enterprises beginning in 1983, and--with average taxes for the 3 years of 1980, 1981, and 1982 as the base--to increase taxes 3 percent annually, specifying no change for 5 years.

The third type is small state-run and collective enterprises, and the major forms are:

Collective Management Contracts. The state-owned but locally administered porcelain factory in Sihui County, Guangdong Province, had losses for years on end, and in 1981 it stopped production and closed down. Ten workers jointly applied to contract the factory for 3 years. After the contract, they applied piece-rate wages, and wages were unequal; they retained profits and shared out bonuses, which also were unequal. Since they truly carried out the principle of more pay for more work, the enthusiasm of the staff members and workers multiplied, and the total value of industrial production increased 260 percent over that prior to the contract.

Individual Management Contracts. In 1981, the Lierbao Red Guard farm tools factory in Liaoyang County, Liaoning Province, had 950,000 yuan in the bank for the purchase of goods and losses of 125,000 yuan; the staff members and workers took a half-year vacation without pay. Shop foreman Wang Yuxue [3769 3768 1331] volunteered his services, asking the factory director to give him the authority to transfer and punish personnel, to utilize the equipment, and to sell the products. The planned value of production of the contract was 1.6 million yuan, and profits 60,000 yuan. If he fulfilled the contract, he would increase rewards and wages 30 percent, and if he overfulfilled the quota he would overfulfill the rewards; if unable to fulfill the contract quota, he would deduct a half year of his own wages; if unable to fulfill half the job, he wouldn't take a single cent of his wages for the whole year. He also signed contracts for supply and marketing, the shop, and teams and groups. As a result, after 1 year of the contract, the production outlook has greatly changed.

Individual Contracts. In order to break the passive situation of good being unmarketable, the Xinguang clothing factory in Shenyang Municipality has

signed a sales quota contract with five comrades of the supply and marketing division. The specific method is that the contracting personnel have abolished basic wages, and with a 60,000-yuan average monthly sales quota as a base, and on the premise of guaranteeing a 5-percent sales profit, they draw 6 percent as pay.

Quota Subsidy Responsibility. The state had a subsidy policy for the soap powder produced by the Rihua factory in Kaifeng, subsidizing 120 yuan per ton. Later it carried out quota subsidy responsibility, subsidizing 90 yuan per ton, not subsidizing losses over this amount, and keeping those losses under it. Through great efforts, the enterprise in 1982 not only didn't require subsidies, but netted a profit of over 1.8 million yuan.

Ownership by the Whole People and Collective Management. Since the state-owned but locally administered carpentry factory in Xuchang Municipality adopted this form, the whole factory has been divided into three branch factories and one subordinate shop. Implementation of two-level accounting and three-level management has changed the factory's being responsible for the profits and losses to the accounting units' being responsible for them. The whole factory has unified production plans, has been externally managed, and has settled such things as accounts and taxes, interest, and expenses paid to the state. The branch factories have assumed responsibility for such things as workers' wages, welfare, production and administrative costs, and they have a definite management power over personnel, finances, and material. The branch factories have paid the state for the whole factory based on item-by-item profit ratio contracts, and the workers have carried out quota piece rates and floating wages, arousing the enthusiasm of the staff members and workers.

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ECONOMIC MANAGEMENT

MANAGEMENT REFORM IN LIGHT INDUSTRY ADVOCATED

Beijing JINGJI RIBAO in Chinese 27 Jan 83 p 2

[Article by Wang Yuling [3769 3768 3781]: "Start With 'Total Responsibility' in Management System Reform"]

[Text] This year the emphasis of the reform of the administrative system and the management styles in light industry is on "total responsibility". This was put forward by Yang Bo [2799 3134], Minister of Light Industry, at the 26 January meeting of provincial level department and bureau heads of the Ministry of Light Industry.

In his speech Yang Bo listed a firm and orderly reform as one of the priority tasks in 1983. He said that in the new year departments of light industry must establish management responsibility system, taking contract as the central focus, combining the interests of the state, the collective and the individual, and linking the staff's and workers' income, welfare and achievements of their work.

As for the forms of management reform in light industry, Yang Bo said that in the light of specific conditions, large and middle size state-run enterprises can learn from the experience of the Capital Iron and Steel Company in its implementation of economic responsibility system. The distribution within the enterprises can be done by not going over the total, not evening up the units, and not placing a limit on individuals. Some enterprises, after a pilot project, may implement the substitution of taxes for profits, and take responsibility for their own gains and losses; or they may decide the base of profits to be delivered to the state and increase partial proportions. Collective enterprises must be managed truly according to the characteristics and needs of collective economy, changing unified business accounting and unified sharing of gains and losses to independent business accounting and taking responsibility for their own gains and losses. In wages of the staff and workers we must firmly enforce the principle of more pay for more work, less pay for less work, no pay for no work; implement floating wages with neither limit at the bottom nor ceiling at the top. Middle and small size state-run and collective enterprises may trial implement the contract-responsibility system with different forms and contents. Some enterprises that have suffered losses may try out loss-payment guarantee system.

This year the reform in departments of light industry also includes pilot projects to combine industry with trade, and these departments must conscientiously do a good job in making preparations for such things as wage reform.

Yang Bo proposed that another priority for the departments of light industry this year is to further enhance the readjustment which includes two areas: the readjustment of product structure and the readjustment of the scope of the enterprises and the production organizations within the enterprises. This is to meet the continuously developing market needs and the daily needs of the people.

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ECONOMIC MANAGEEENT

INTEGRATED MANAGEMENT OF AGRICULTURE, INDUSTRY CALLED SUCCESS

Tianjin TIANJIN RIBAO in Chinese 21 Jan 83 p 1

[Article by Staff Reporter Li Shiliang [2621 1102 0081]: "State Farms in Our Municipality Have Netted a Profit of Over 57 Million Yuan in 4 Years"]

[Text] Since state farms in our municipality began experimental management of agriculture, industry, and commerce as an integrated complex in February 1979, they have fully utilized free resources and favorable conditions, developed agricultural production and agricultural products processing businesses, and achieved good results in increasing products by a big margin and in markedly improving economic effectiveness. By the end of 1982, the Bohai Agricultural-Industrial-Commercial Integrated General Corporation of Tianjin Municipality had netted a profit of 57.07 million yuan, forming a sharp contrast to the situation prior to the establishment of the General Corporation, wherein losses averaged nearly 700,000 yuan annually for 26 years.

Gratifying Economic Achievements

The Bohai Agricultural-Industrial-Commercial Integrated General Corporation has four subordinate specialized companies for dairy products, distribution, industry and grape winemaking, three directly subordinate factories for Apricot food products, Reach the Clouds beverages, and Willow carpets, as well as a milch cow research institute, a cadre school and 15 state farms, and over 19,000 staff members and workers.

Although state farm experimental management of agriculture, industry, and commerce as an integrated complex has not been in existence for long, the amazing speed of economic development and the remarkable economic effectiveness have confirmed its broad prospects for self-development and its great vitality. In the mid-1970's, industry and agriculture on the farms each constituted half of the total value of production, and there was no commerce. After [the introduction of] experimental management as in integrated complex, the proportion of industry and agriculture reached 73 percent for industry and 27 percent for agriculture last year, and an industrial complex was formed for five food products--dairy products, grape winemaking, beverages, meat products, and starch. The value of industrial production of food products has developed from approximately only 10 percent of the value of

industrial production to over 40 percent. Within agriculture, the speed of increase for animal husbandry has been greater than that for land cultivation. Commercial circulation channels have greatly increased, and in addition to the use of over 90 self-managed retail departments to develop fixed-point markets and concurrent wholesale-retail management, commercial relations have been established with managers of local businesses, neighborhoods, and collectives as well as with certain commercial departments in cities such as Beijing, Shijiazhuang, Tangshan, Shenyang, and Harbin.

Changes in the economic structure have had gratifying economic results. In the 26 years prior to the establishment of the General Corporation, the farm system had lost 17.8 million yuan. Experimental management as an integrated complex in the past 4 years has netted a total profit of 57.7 million yuan, an average annual profit of over 14.26 million yuan, and an annual profit increase of approximately 4 million yuan. Compared to 1978, each staff member and worker last year created an average production value of 6,150 yuan, and the labor production rate was raised 240 percent; they each created 1,065 yuan in taxes--a 15-fold increase.

Several Advantages of Comprehensive Management

Recently, through summarizing 4 years of practice, the Bohai Agricultural-Industrial-Commercial Integrated Complex summarized the advantages of carrying out comprehensive management of agriculture, industry, and commerce under four unities:

1. Unity of speed and results. In carrying out comprehensive management of agriculture, industry, and commerce in the past 4 years, the total value of agricultural and industrial production has increased by an annual average of 26 percent, and taxes have increased by an annual average of 93 percent. In 1982, taxes created per 100 yuan in fixed assets and per 100 yuan in circulating funds increased over 800 percent compared to 1978.

2. Unity of local and general economic interests. There are four major manifestations of this: The first is that financial subsidies have decreased. In the 26 years prior to the establishment of the General Corporation, the state had budgeted nearly 30 million yuan in subsidies. In 4 years of experimental management as an integrated complex, [the state] has netted over 50 million yuan in profits. The second is that there has been an increase in taxes paid to the state. A total of over 16 million yuan in taxes has been paid to the state in the past 4 years--an increase of 180 percent over the 4-year period prior to experimental management. The third is that national investments in the farms have decreased. In 1978 the state invested 4.97 million yuan, but in 1982 this had decreased to 2.05 million yuan, a reduction of 59 percent. The fourth is that the workforce is planned for the country. In the past 4 years not only has the workforce been planned within the farms, but plans also have been made for over 4,000 unemployed youths in society.

3. Unity of production and circulation. Since experimental management as an integrated complex has been in effect, the farms have had the right to

market products directly, have begun to set up booths in the streets to peddle fruit, and have progressively developed busy shopping centers at established points, fixed-point markets, concurrent wholesale-retail management, and combined merchants and peddlers. The assortment of self-produced merchandise has developed from a single fruit to all kinds of things such as cold drinks and snacks, fruit juice, dried and condensed milk, fruit wine, and dried meat floss and jerky, as well as woolen sweaters, scarves, household furniture, and steel windows and pipes--70 types and more than 300 varieties.

4. Unity of accumulation and consumption. Since experimental management as an integrated complex has been in effect, from 1979 to 1982--based on developing production--65.3 percent of the funds were used for expanded reproduction, 12.1 percent to build living quarters for staff members and workers and to initiate other collective welfare work, and 22.6 percent as a wage fund for staff members and workers. Thus, coordinated proportions have been maintained for construction and for livelihood.

Persisting in Reform Guarantees the Success of the Integrated Complex

In the past 4 years, the reason why this integrated complex has achieved success in focusing people's attention, in addition to having obtained their respect and support in all aspects, lies in the fact that the broad masses of staff members and workers have had the courage to be unafraid of difficulties and the faith to persist in reform and progress.

Since the integrated complex has been in business, the thinking of some individual leaders has been illogical, believing that although the farms had lost money for over 20 years, nevertheless their direction was still correct. "Leftist" ideological influence, causing them to be overly cautious, obstructed the development of reform work. The local party committee first tried every means to help these people dispel their misunderstandings, and urged them to keep pace with the new, already changed situation. The thinking was that their capacity could be utilized only after they understood. It firmly resolved to regulate those people who were truly unable to keep pace, and to boldly promote [a policy of] replacing them with ones who could initiate new situation. Dongjiao Farm was a unit which formerly had lost money year in and year out. Since [the introduction of] state farm experimental management of agriculture, industry, and commerce as an integrated complex, reform work activity there was not great because the ideology of their cadres was not sufficiently liberated. In 1980 the local party committee promptly regulated that farm's leading group. As soon as the new farm chief and secretary assumed office, they set up an economic responsibility system from top to bottom with rewards and punishments, arousing the enthusiasm of staff members and workers. In 1981 this farm netted a profit of 700,000 yuan, and last year the profits increased again to 1 million yuan.

In order for management of agriculture, industry, and commerce as an integrated complex to succeed, it is necessary to have a cadre force which will stick to the socialist road, and one which has professional knowledge and management

ability. Judging from the original cadre force of the farm system, however, this was precisely one of the fatal weaknesses. Of 58 farm-level leading cadres, only 4 were graduates of technical secondary schools, and the majority only had practical experience and lacked systematic professional knowledge, or else they were nonprofessionals who had not been at the farms long and were unfamiliar with the work. To solve this contradiction, the local party committee, through self-reliance, made preparations to establish a cadre training school. By studying a curriculum at the cadre school in such fields as politics, agriculture, fruit trees, farm machinery, soil, accounting, and management and administration, cadres from the farms and brigades generally raised their political, administrative, and technical level.

To carry out comprehensive management of agriculture, industry, and commerce, it is necessary not only to overcome self-encountered difficulties, but also to boldly overcome those obstructions which arise from the old habits and influences of society. When [members and workers of] the integrated complex began to take their self-produced merchandise to markets to sell, it happened that their things were stolen and broken by other people. Faced with these difficulties, staff members and workers of the integrated complex didn't retreat; in addition to arguing strongly on just grounds, they thought up many methods that would be mutually beneficial to the commercial departments. In addition, they established good business contacts with commercial departments, and when there was an urgent lack of merchandise on the markets, they helped supply each other's needs and achieved equal and common goals with the commercial departments for the convenience of the masses.

In the past several years, the Bohai Agricultural-Industrial-Commercial Integrated Complex has overcome difficulties with this kind of indomitable spirit, and has strived to exist and develop in the midst of reform. And although their accomplishments have been outstanding, they have not become complacent. Currently, the directors of this business are conscientiously summing up their experiences, improving the work, and proposing to work hard from now on to achieve the objective of the struggle to quadruple the annual value of agricultural and industrial production approximately 10 years ahead of time. They are determined to develop the spirit of reform and to unceasingly develop the new situation which has been initiated.

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FINANCE AND BANKING

BANK OF CHINA'S ROLE IN CREDIT WORK REVIEWED

Beijing Zhongguo JINRONG [CHINA'S BANKING] in Chinese No 2, 4 Feb 83 pp 10-13

[Article by Cui Yanxu [1508 1693 4872] of the Bank of China: "Adhere to the Principle of Opening Up to the World and Accelerating the Readjustment of the National Economy"]

[Text] Since the 3d Plenary Session of the 11th Party Central Committee, we have formulated economic principles and policies such as "readjustment, restructuring, consolidation and upgrading" and "opening up to the world and enlivening the domestic economy," eliminated the "leftist" influence and corrected our guiding ideology in economic work. Under the guidance of the principles and policies of the party, the Bank of China has achieved remarkable economic results in using foreign exchange and foreign trade credit as a lever to accelerate readjustment of the national economy. We should now conscientiously implement the line of the 12th Party Congress, sum up our experience, carry out principles and policies such as opening up to the world and enlivening the domestic economy, continue to advance, give full rein to the economic function of bank credit and provide service in trying to create a new situation in socialist modernization.

A Review of Our Bank's Credit Work Since the 3d Plenary Session of the 11th Party Central Committee

Since the 3d Plenary Session of the 11th Party Central Committee, the Bank of China--the national bank which is specialized in foreign exchange--has progressively expanded its business in light of the needs in development of the situation, resulting from mainly settling international accounts to paying more attention to raising and utilizing funds, extending loans and supporting the development of foreign trade and the building of the national economy.

First of all, we have progressively expanded the scope of loans. To do a good job in stimulating the credit business, we have increased various kinds of loans such as medium and short-term loans for export commodity production, medium and long-term loans for machinery and equipment exports, foreign exchange loans at favorable interest rates, special foreign exchange loans, buyer's credit, loans for joint ventures with foreign countries and loans for auxiliary projects. By doing so, we have expanded the target and scope of loans and basically met the needs of the national economic development.

We have also reformed the credit system. Since the 3d Plenary Session of the 11th Party Central Committee, regarding foreign trade funds for procuring export commodities, we have enacted on a trial basis the management measure of extending fixed-quota loans, above-quota loans and special loans and charging additional interest on loans which are overdue, inappropriately used or used for other purposes to help foreign trade enterprises improve management. Regarding foreign exchange loans, we have further expanded the power of our branch offices to examine and approve the issuance of loans, carried out the planning and management measure of "unified planning, separate management at various levels, linking approval with utilization and issuance with collection, controlling the balance of the loans and utilizing it in circulation," and assigned work targets which should not be changed in 3 years to all branch offices to further arouse their initiative and enthusiasm to do a good job in foreign exchange loans.

Owing to the adoption of these measures, progress in our bank's credit work has been relatively fast, and the amount of loans has doubled and redoubled. Along with the expansion of our country's trade with foreign countries, the balance of foreign trade loans increased from 20 billion yuan in 1978 to 38.6 billion yuan in June 1982, a 93 percent increase. During the 3 1/2 year period from 1979 to June 1982, \$14,266 million of foreign exchange loans were approved, \$10,256 million were actually used and \$7,312 million were collected. They are respectively 4.5, 4.8 and 5.8 times the figures in the 6-year period from 1973, the year the foreign exchange loans were initiated, to 1978. Beyond these foreign trade loans and foreign exchange loans, we had also issued by June 1982 RMB 373 million yuan of medium and short-term loans, 217 million yuan of medium and long-term loans and 315 million yuan of loans for auxiliary projects in accordance with the needs in fostering the production of export goods.

All loans issued by us have yielded relatively good economic results. They have been mainly used to support the development of foreign trade and communications and transportation undertakings. Since the 3d Plenary Session of the 11th Party Central Committee, the national economic readjustment has scored marked achievements, our country's foreign trade has doubled and redoubled and funds needed for foreign trade, imports and exports have been mainly provided by the foreign trade credit department of our bank. At the same time, we have vigorously supported the development of energy resources and technical renovations of medium-sized and small enterprises. By June 1982, offices of the Bank of China had issued altogether \$1,547,000,000 in foreign exchange loans for 6,300 projects. Over 4,000 of these projects were to support medium-sized and small enterprises, especially the light and textile industries, in carrying out technical renovations and taking the road of intensive expansion of reproduction. This has enable some light and textile industries to improve production conditions, expand production capacity, upgrade the quality of products, increase the varieties of products and improve the packaging of products. These loan projects require a small amount of investment but bring quick results, large profits and relatively good economic results. According to the 1982 incomplete statistics of 2,611 projects whose loans have been paid, a \$537 million loan, during its effective period, could increase the output value of enterprises by 5,707,000,000 yuan, tax revenue

of financial departments by 716 million yuan, the profits of enterprises by 903 million yuan, the export commodity procurement of foreign trade departments by 2,609,000,000 yuan, \$1,262,000,000 of foreign exchange and 3,100,000,000 yuan of market goods. In other words, a \$1 loan during its effective period could increase output value by 10.65 yuan, tax revenue by 3.02 yuan, export commodities by 4.87 yuan and foreign exchange by \$2.35.

Besides, we have also given active support to building tourist hotels, launching overseas contract projects and developing joint ventures with foreign countries.

Experiences and Understandings of Doing a Good Job in Credit Work

After summing up the practice in work over the past few years, I think there are five basic experiences in the credit work:

First, we must actively and voluntarily serve the party and state principles of economic construction. Since the 3d Plenary Session of the 11th Party Central Committee, the credit funds of our bank have been used mainly to support the development of foreign trade, the building of weak links in the national economy such as communications and energy resources, the technical renovation of medium-sized and small enterprises and the expansion of production in light and textile industries and have been welcomed by localities, departments and enterprises.

Second, we must strictly carry out the credit plan and keep a balance of credit. The credit plan is an important component of the national economic plan. To keep a balance of credit, we must control the input of the credit funds and pay attention to economic results in accordance with state principles and policies of economic construction and with the credit plan transmitted to lower levels after being balanced.

Third, we should implement the principles of loans "fostering those with favorable conditions and handling different cases in different ways" and "making orders according to the sales" and strive to raise the efficiency of the credit funds. When issuing loans, we must implement these principles. We should conscientiously carry out investigations prior to issuance of the loans, screening during the issuance and examination after the issuance. Only by doing so can we really get hold of the right of self-determination in extending loans, namely the right to decide whether to grant a loan, how much and how long and at what rate should the loan be and whether to assume responsibility for the consequences of the loan.

Fourth, we should carry out thorough investigations and studies; for they are an important way to do a good job in credit work, utilizing the credit funds and correctly carrying out the role of credit as a lever.

Fifth, we should strengthen the ideological and political work, arouse the enthusiasm for work of cadres in charge of credit work and make all credit workers enhance their initiative and sense of responsibility for doing a good job in their work, adhere to principles, observe rules and regulations,

devote themselves to their duties and enthusiastically serve enterprises and the development of the national economy.

Opinions on Future Work

At present, our bank's problems in credit work are: The economic results of credit funds are not good enough, the management system of the circulating fund loans is not perfect, too much money is occupied, the turnover rate of funds has not reached the best record of the past, the foreign exchange credit funds have not been fully utilized, the research on the feasibility of some projects is insufficient and some loan projects have failed to bring expected economic results. Leading comrades of the central authority are now paying a great deal of attention to how to bring the role of the Bank of China into full play in utilizing foreign investment and how to make maximum use of the bank's foreign exchange funds. We must plan well our future work in accordance with the spirit of the 12th Party Congress and in light of the actual situation. On the basis of the work foundation of the past, we should make better use of credit funds in a more lively way, bring into better play the role of the credit work as a lever and make due contributions to fulfilling the targets of economic development defined at the 12th Party Congress.

First, we should give energetic support to the promotion of foreign trade. Carrying out the policy of "opening up the world and enlivening the domestic economy" is an unswerving strategic principle of our country and promoting foreign trade is an important element in carrying out this principle. Since promotion of foreign trade is closely tied to the utilization of our bank's credit funds, we should make great efforts to meet the reasonable demands of funds by foreign trade enterprises in all links of purchasing, selling, transporting and storing and give energetic support to the promotion of foreign trade in accordance with the foreign trade purchasing and selling plans and the credit plan assigned by the state. At present, we should emphasize the following four tasks: 1) Gradually publicize the measures for enacting the quota management of foreign trade loans. Carrying out the quota management of foreign trade loans is conducive to implementing the credit principle of "placing orders according to sales" and can encourage foreign trade enterprises to speed up the improvement of their management and pay more attention to economic results. 2) Strengthen the analysis of the mix of export commodities in stock. We should carry out investigation and research on major commodities in order to help foreign trade departments do a good job in balancing purchases and sales and stock clearance and accelerate the turnover of funds. 3) Implement the principle of "fostering those with favorable conditions and handling different cases in different ways." On the one hand, we should actively support foreign trade departments in expanding purchases of readily-marketable export goods. On the other hand, we should severely restrict loans for commodities which are in abundant supply and seriously overstocked. Foreign trade departments must not purchase commodities whose quality and specifications fall short of export standards, and banks should resolutely refuse to grant them loans. 4) Help do a good job in settling international accounts and ensure that remittance is received safely and in time to reduce the amount of funds which lie idle while being transferred.

Second, conscientiously do a good job in loans used for supporting such strategic focal points as developing energy resources and communications. Developing energy resources and communications is an important strategic focal point in our country's economic construction. It is an extremely important factor in developing our national economy no matter if it is judged from a present or long-term point of view. It is also an important aspect which our credit work must support. With regard to all loans under the state plan of unified borrowing or low-interest loans offered by governments to governments and by international monetary organizations, we should actively participate in fund raising in accordance with the arrangements in the plan, serve as a good adviser and conscientiously do a good job in negotiating and signing contracts with foreign countries. After a thorough study of the feasibility, our bank may extend loans to those projects under construction with suitable conditions and unquestioned ability to repay the loans on their own. Our bank may take the lead in organizing foreign banking organizations or several domestic banks to issue joint loans to build certain projects. Provincial, municipal and autonomous regional projects for developing energy resources and communications should be actively supported and conscientiously dealt with by related branch offices in accordance with the regulations governing the loan procedure. As for other important strategic focal points in economic construction such as agriculture, education and science, we may consider the method of releasing special foreign exchange loans to offer support when possible and necessary.

Third, actively support the technical renovations of medium-sized and small enterprises. Carrying out technical renovations in our country's existing enterprises in a planned and systematic way is the foundation, basis and starting point in paying attention to economic results and fulfilling the grand goal of quadrupling the national annual output value of industry and agriculture by the end of this century. All local branches must voluntarily participate in drawing up local technical renovation plans and integrate our bank's credit funds for supporting technical renovations with local technical renovation plans, especially the technical renovation plans concerning the development of enterprises which produce export commodities. After thoroughly studying the feasibility, local branch offices must, in accordance with related regulations for the loan procedure, give energetic support to units which adhere to the party and state principles of economic construction, can earn foreign exchange for the state and have the ability to repay their loans and help them carry out projects for adopting new technology, new equipment, new materials and new techniques, for improving the quality of products, for increasing the variety of products, for accelerating the upgrading of products, for increasing the variety of products, for accelerating the upgrading of products, for reducing the consumption of energy and raw materials, for improving comprehensive social efficiency and for expanding production internally.

We should expand the utilizing range of foreign exchange loans at favorable interest rates. All enterprises, except for those using Chinese and foreign joint investment, overseas Chinese investment and foreign investment, and all loans, except for circulating loans, can enjoy the favorable interest rate. Our policy of interest rates differs on a case-by-case basis and is adjustable

in accordance with the state economic policy. Different recipients of loans should be given different rates of interest.

We should severely restrict loans for new projects or expansion projects. If equipment are technologically and functionally up to standard and can be manufactured and supplied in our country, then loans should not be granted for imports. We should actively do a good job in special foreign exchange loans and a better job in medium and short-term equipment loans and RMB loans for auxiliary projects.

The following tasks are initial arrangements for our credit business to support the technical renovations of medium-sized and small enterprises in 1983; 1) All trades and professions must find out about their local technical renovation plans during the "sixth 5-year plan" period, their technical renovation projects in 1983 and their demands for loans. 2) All branch offices should sum up their experiences in carrying out the experimental work of special foreign exchange loans and foreign exchanges loans at favorable interest rates and study ideas for improving this work so that these experiences and ideas can be exchanged through the activities organized by the main office of the bank. 3) Regarding loans used to support the technical renovations of medium-sized and small enterprises, all branch offices should conduct thorough investigations and studies, practically estimate the economic benefits, sum up their experiences and lessons and continue to improve the economic results of loans. 4) All branch offices should actively enact propaganda activities to make departments concerned understand our banking methods, principles and points for attention in extending loans to support the technical renovations of medium-sized and small enterprises and the economic benefits and work experiences already gained by our bank in doing so. The substance of the propaganda should be practical and effective.

Fourth, strive to do a good job in extending loans to support the export of ships, machinery and electronic products. Increasing the export of ships, machinery and electronic products and enlarging their proportion in export commodities is one of our country's important measures to change the product mix in promoting foreign trade. In recent years, the export volume of our ships, machinery and electronic products has increased year by year, which is one of our country's achievements in promoting foreign trade since the 3d Plenary Session of the 11th Party Central Committee. However, our country's export volume of ships, machinery and electronic products only accounts for a very small portion of the gross volume of world trade. Therefore, using our bank's credit funds to finance export seller's loans and export buyer's loans will play an important role in expanding the export of ships, machinery and electronic products. We should sum up our experiences in handling medium and long-term loans and actively create conditions on the basis of doing a good job in the export seller's credit to gradually carry out on a trial basis the work of export buyer's credit to meet the needs of expanding the export of ships, machinery and electronic products.

Fifth, further improve the economic results of credit funds. The task to improve the economic results of credit funds involves a wide range of issues. It is even more complicated at present because the reform of our economic

system is still being carried out in depth. Therefore, this task cannot be fulfilled by a bank or a department alone. But as a bank credit department in charge of credit funds, we have the responsibility to carry out thorough investigation, study, analysis and comparison, to reflect situation, to conscientiously implement the principle in giving loans, supervise the utilization of loans and pay attention to their economic results. All outstanding loans which are due in 1983 must be transferred to payment expediting accounts with higher interest rates set according to the rules so as to encourage enterprises to pay attention to their economic accounting and improve their management.

We should establish information network as soon as possible to exchange situations. We may first link up branch offices in provinces and autonomous regions of economically coordinated areas to establish experimental networks centering on coastal branch offices. On this basis, when conditions mature, we will establish a national information network. Related provincial and autonomous regional branch offices in the economically coordinated areas should report to coastal branch offices in a timely manner about the situation of changes in the procurement, storage, export and prices of export commodities and about the situation related to technical renovations using foreign exchange loans in their areas. The coastal branch offices should then sum up these situations and, in light of the coastal situation, publish newsletters on a regular or irregular basis and dispatch them to the branch offices in the economically coordinated areas.

Sixth, strengthen the building of the contingent of cadres in charge of credit work. Improving the professional skill of cadres now in charge of credit work is an extremely important measure for doing a good job in the credit work. Cadres in charge of the credit work should not only familiarize themselves with related principles and policies, rules and regulations and concrete ways of carrying out the credit work, but also know such vocational work as accounting, settling accounts and foreign exchange management, have an intimate knowledge of enterprise management, have the ability to analyze economic activities, understand the principles of the national economic construction and understand the concrete measures for implementing the said principles in their local areas. These cadres should also have sound ideology and good work style. They should have the intention to help enterprises develop production and improve management and economic results. They should go deep into the realities of life to conduct investigations and studies and to build closer relations with enterprises and establishments. Demands on these cadres are indeed high. In order to quickly improve the work ability of incumbent credit cadres, we should actively carry out the training work in various forms among them such as having the veterans guide the new, holding long meetings or short trainings, taking leaves of absence for the purpose of study and exchanging experiences between the higher and lower levels. We should also gradually institute the personal responsibility system among these cadres, define division of labor for every one and combine the responsibility, authority and interest to arouse their enthusiasm.

FINANCE AND BANKING

AGRICULTURAL BANK ISSUES LOANS TO SPECIALIZED, KEY HOUSEHOLDS

Fujian FUJIAN RIBAO in Chinese 26 Feb 83 p 1

[Article by Cong Nianke [0654 1623 4430] and Chen Mingxun [7115 6900 8113] of the Provincial Agricultural Bank: "Support the Specialized Households and Key Households in Developing Commodity Production--The Provincial Agricultural Bank Gave Out More Than 4 Billion Yuan in Loans Last Year"]

[Text] Last year, the provincial agricultural bank issued 4.3 billion yuan in loans to support specialized households and key households in developing commodity production and this has greatly improved the quality of commodities and increased the income of peasants.

Lianjiang County which is situated along the coast stretches over large areas of the coastline. Last year, the provincial agricultural bank issued loans totalling 5.69 million yuan for pisciculture and 35 percent of these loans were given to joint associations. Xiaocheng Commune Enterprise and Credit Cooperative issued loans of 246,000 yuan to the various specialized households, key households and associations to support pisciculture over an area of 1,800 mou. The output reached 45,000 dan and the value of output reached 1.35 million yuan which accounted for 51 percent of the total value of agricultural output in the whole commune. The branch of agricultural bank in Tongan hsien actively supports specialized and key households in breeding ducks for eggs. In 1982 it rendered support to 95 specialized households in 25 production brigades in breeding 156 flocks, including 18,172 ducks. This year, the state purchased 9,005 dan of eggs and the duck-breeding households sold 2,300 dan of eggs at the village fairs and supplied the market with more than 11,300 dan of eggs.

In the suburbs of the various cities, the municipal branches and enterprises at basic levels give out loans to support specialized and key households in developing husbandry. Last year, Sanming City issued loans of 1.1 million yuan for raising pigs and loans of 346,500 yuan for fodder. It has subsidized 287 specialized households in raising 12,936 pigs with an average of 45 pigs per household. It has also helped 466 key households raise 4,576 pigs with an average of 11 pigs per household.

In regions producing marketable grain such as Jianyang and Sanming, the County Branch and enterprises actively help specialized households develop the production of marketable grain. The Shaowu Branch helped Commune member Wang Chuanfa [3769 0278 4099] in Shangtun Production Brigade undertake contract work on 80 mou of muddy fields on the hillside and gave him loans totalling 1,702 yuan. Wang Chuanfa reaped an excellent harvest and the total grain output in that year reached 5,200 jin. After allowances for retained grain and requisition grain, he sold more than 36,000 jin of grain to the state and brought in 7,450 yuan of income.

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CSO: 4006/367

FINANCE AND BANKING

REPLACING PROFIT DELIVERY WITH TAXATION IN HUBEI REPORTED

Beijing JINJI RIBAO in Chinese 12 Feb 83 p 1

[Article by Zhou Shunming (0719 7311 2494): "The Measure of Replacing Profit Delivery With Taxation Will Be Practiced Throughout Hubei Province"]

[Text] According to the data recently provided by the Finance Bureau of Hubei Province, the method of replacing profit delivery with taxation which has been tested in 120 industrial and communications enterprises in the 7 counties of Guanghua, Hanchuan, Anlu, Dawu, Nanzhang, Huangpi and Junxian has gained obvious economic results. In 1982, the 120 enterprises which practiced the method of replacing profit delivery with taxation increased their profits 55.07 percent over the previous year; their income tax turned over to the state increased 29.82 percent compared with profits delivered to the state in the previous year; and the portion of profits retained by enterprises increased 51.84 percent over the previous year. The increase of the portion of profits retained by enterprises means that their ability to expand reproduction has been strengthened and that welfare projects for staff and workers have been improved. At present, the enterprises are spending their retained profits to set up nurseries, kindergartens, public baths and libraries. They are also rebuilding living quarters for staff and workers.

It is reported that the Finance Bureau of Hubei Province will put into effect the method of replacing profit delivery with taxation in the country-run industrial enterprises throughout the province.

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CSO: 4006/317

INDUSTRY

BRIEFS

HEAVY-DUTY BICYCLE PRODUCTION--The local defense plants in Shaanxi have successfully trial manufactured 10,000 "Jade Rabbit" brand 28-inch heavy-duty bicycles by the end of 1982 and have placed them in the rural market on a trial basis. To date, these plants have signed contracts with customers in the Northeast, Shanxi, and the coastal areas for 30,000 bicycles. [Text]
[Xi'an SHAANXI RIBAO in Chinese 11 Feb 83 p 1]

CSO: 4013/192

DOMESTIC TRADE

CIRCULAR ON STEPPING UP COMMERCIAL REFORM

Hebei HEBEI RIBAO in Chinese 11 Feb 83 p 1

[Article: "Accelerate Commercial Reforms and Attain Results as Quickly as Possible; The Provincial Government Issued a Circular Requesting Serious Implementation of the Important Talks of Comrade Hu Yaobang"]

[Text] The provincial people's government issued a circular on 7 February requesting government organizations at all levels and the various departments concerned to seriously implement the important report of Comrade Hu Yaobang on reforms and strictly and effectively grasp the promotion of the responsibility system of contract management as an important content in commercial reforms and attain results as rapidly as possible. The circular points out that:

(1) It is necessary to seriously study and understand the spirit of the important report of Comrade Hu Yaobang and raise our understanding of the great significance of commercial reforms. Reform is a resolution of the Party Central Committee and the urgent demand of the broad masses of cadres and staff and workers. The tide of reform has already arrived and there is a sense of urgency. We must be able to catch up with the development of the situation in our ideology and work and concentrate our efforts on grasping reforms well.

(2) It is necessary to accelerate commercial reforms. The retail business and food industry on a large, medium and small scale in the whole province must actively promote the responsibility system of contract management which must be unfolded systematically under leadership on all sides in the first half of this year. The wholesale enterprises must also actively promote this with a different contractual form. The supply and marketing cooperatives at the basic levels must carry out reforms at different periods. These should be basically completed in the first 6 months of this year. Counties with the required conditions must set up joint cooperatives and before the year end, joint cooperatives must be set up in all counties. The grain department must actively study and implement various forms of responsibility system of contract management based on the characteristics of their trade.

(3) There should be variety and flexibility in the management of contracts. Under the prerequisite of a reasonable growth in the financial income of the county and without adverse effects on the interests of the consumers, we must

be bold and let the workers and people hold discussions and adopt the form which is most suitable for their particular trade and enterprise. In the contract system, we must insist on voluntary organization and democratically elect people to be in charge, and pay attention to discovering and training capable people.

(4) The departments concerned such as finance, banking, taxation, labor, material prices, industry and commerce, administration and management must actively support commercial reforms and through reforms, promote work in the various sectors. It is necessary to seriously study the questions of labor, wages, awards, taxation, material prices, autonomy of enterprises and the system of operation and management and put forth realistic and practicable methods of reforms as soon as possible.

(5) At present, government organizations at all levels must place emphasis on grasping reforms. The principal leading comrades must go to the forefront, study the new conditions and resolve new problems. It is necessary to organize the forces to go into the grassroots and help carry out reforms. It is necessary to promptly study and examine the policies of reforms and promptly hold forums to exchange experience and continuously promote the healthy development of commercial reforms.

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CSO: 4006/367

DOMESTIC TRADE

MULTI-CHANNEL MANAGEMENT, DIVERSIFIED PRICE FORMS DISCUSSED

Beijing JIAGE LILUN YU SHIJIAN [THEORY AND PRACTICE OF PRICING] in Chinese
No 1, 20 Jan 83 pp 20-23

[Article by Yin Ke [1438 0668]: "Multi-Channel Management and Diversified Price Forms"]

[Text] Our country's adoption of the multiple channel form of circulation and diversified operations represents a major reform in the area of circulation, a reform which has brought profound changes in production, distribution, exchange and consumption as well as a number of new elements and problems in the work of controlling commodity prices.

1. Objective Inevitability of Diversified Price Forms for the Same Commodities in the Same Market

The selling of the same commodities at different prices is still within the category of diversified price forms. Differences in commodity prices are, by their very nature, an outcome of the floating price form in that they are based on set prices. Those who are engaged in business are permitted to raise or lower prices around the fixed prices set by the state according to the supply and demand situation in the market. There has been a great increase in the influx of a variety of commodities since the adoption of the multiple channel form of management. Taking agricultural products as an example, aside from grain, cotton, oil and cured tobacco, the first, second and third categories of products in various quantities have made their appearance in the market. That is particularly true for the second category of products which are in short supply, such as lacquer, oranges and tangerines, black mushrooms, tea and rare Chinese medicines and such industrial consumer products as electric meters, electric fans, television sets, tape recorders, bicycles and sewing machines. At the same time, the means of production have also been placed under the multiple channel form of management. Generally speaking, an overwhelming majority of the commodities which have made their appearance in the market are those which were in short supply.

The selling of the same commodities at different prices in the same market following the adoption of the multiple channel form of management and diversified operations has occasioned a great deal of argument. Those who are in favor believe that it serves to invigorate the economy, while others think that it has

created a chaotic situation in the market. Those who are against it outnumber those who are for it. For this reason, the adoption of this type of operation has encountered considerable resistance. One source of resistance has come from the restraints posed by traditional concepts and the force of habit. Long accustomed to equating the strict socialist unification of the market with the unification (sameness) of prices, the people tend to labor under the misconception that diversified price forms would be prejudicial to the unification of the market. Another source of resistance may be attributed to self-interest of certain regions and businesses.

The adoption of the multiple channel form of management and the structure of diversified prices is justified by objective economic factors.

First, from the production point of view, the peasants have been given a greater leeway in deciding what to produce and how to produce since the nationwide adoption of the various economic responsibility systems. For instance, so long as the peasants have fulfilled their obligations in purchasing, in assigned purchasing and in fulfilling contract terms for placing orders for products stipulated by the state qualitatively and quantitatively, they are free to set negotiated prices for the surplus products or to sell them in the country fairs. Since the adoption of the economic responsibility system by the industrial enterprises, the factories have been given certain powers to set the prices for their products. Since the abandonment of the unified purchasing and exclusive selling system by the state, and especially after the means of production have been put in the market, the production units have been compelled to pay attention to the demand for and the marketing and production of various products. At the same time, they have no choice but to move their prices up or down within the range set by the state according to the marketability of their products. That is to say, they can raise the prices of products in short supply above the factory prices and below the wholesale or allocated prices, or lower the prices of products in plentiful supply that are slow to sell below the factory prices. That is why there can be no "unity" in the prices of the same products with the same brand names. Not so long ago, the people's market in Chengdu bought from the No 3 Electric Meter Factory in Tianjin 2-ampere electric meters (assembled by the factory) of the same quality on three separate occasions at three different prices. The average price for each meter was 22.94 yuan for the first ones, 23.5 yuan for the second and 21.8 yuan for the third. Again, according to a survey conducted by the Machinery Bureau of Sichuan Province, the 90 factories under its jurisdiction, in view of the sluggish sale of various machine products, were able to open up the market for such products by allowing most of their prices to fluctuate downward. Offsetting the increases with the decreases, the prices of all machine products were found to have dropped by 3.5 percent.

Second, viewing the matter from the angle of circulation links, the adoption of the multiple channel form of management and diversified operations is another major factor accounting for different prices for the same products in the market. That is due, first of all, to the fact that some commodities are acquired locally and under the same system, while others are acquired from other areas and under a different system. Second, the purchasing prices for commodities vary. Some are factory prices, some wholesale prices, some allocated prices and some

a combination of all three. Some commodities in short supply are also purchased at retail prices (we do not approve of this practice). Third, there are differences in the number of links for laying in commodities. Generally, commodities are channeled through three separate links and as many as five or six links, although there are those which are channeled through one single link. Sometimes, there is a direct link between the factory and the store and the products are sold directly at the factory. Fourth, the standard of operation and management differs from enterprise to enterprise so that there is a considerable discrepancy in the cost. That is one major factor accounting for the fact that the same commodities are sold at different prices.

The original channel for the acquisition of commodities--the acquisition of commodities by state-operated commercial enterprises--generally goes through three separate links. Each additional link adds to the cost. Taking industrial products acquired by Sichuan from out of the province as an example, the price increases by 8 to 12 percent over the factory price, an additional 3 to 5 percent over the price at the secondary wholesale station in the production area (the price difference between the localities), 0.5 to 2 percent over the price at the secondary wholesale station at the selling area and 10 to 12 percent over the price at the third-level wholesale station. That also applies to the links for the channeling of subsidiary agricultural products. Taking grass mats as an example, the actual price paid by Chengdu in Sichuan Province for each mat to the production area of Luzhou County is computed as follows: the basic supply and marketing cooperative pays the purchasing price of 2.07 yuan plus 6 percent (service commission as purchasing agent); the price at the production county goes to 2.19 yuan plus 5 percent (difference between purchasing and selling price) plus 0.11 yuan (packaging fee); the price at the allocation and marketing site in the production county goes to 2.41 yuan plus 0.075 yuan (transportation cost and miscellaneous expense) plus 7 percent; the wholesale price at the marketing site goes to 2.66 yuan plus 10 percent; finally, the retail price at the marketing site goes up to 2.93 yuan. After having gone through a number of links in the chain, each mat is sold at a retail price which is 41.5 percent higher than the purchasing price in the production area. If the mats are allocated and shipped to other provinces, there will be further links in the chain and the price will be further raised. In advocating for the adoption of the multiple channel form of management and the reduction of the number of links and expenses, we are by no means opposed to the multiplicity of links as such. It is to be expected that high-priced commodities in bulk should be reduced as far as possible for local and subsidiary agricultural products which should be disposed of locally. The adoption of the multiple channel form of management would help to reduce the number of links. When the factories start selling their own products and the stores begin to open up the sources for laying in supplies, a link is forged between the factories and the stores and a direct connection is established between production and marketing. It is because of the difference in the number of links in the acquisition of merchandise that there can be no uniformity in the cost price. In view of the differences in the production techniques of the large, medium-sized and small factories, it is not necessary to enlarge on the differences in the factory prices.

2. Rationality of and Theoretical Basis for Different Prices for the Same Commodities

As has been stated earlier, the different prices for the same commodities are the floating prices fluctuating around the planned prices set by the state. Their theoretical justification is still based on the law of values. In any case, floating prices are more scientific and reasonable than fixed prices. First, prices are an indication of the value of commodities in terms of money. They are, on the one hand, determined by the value of the commodities and, on the other, by changes in the amount of cash in circulation. As was pointed out by Marx, a general increase in the price of commodities occurs only when their value goes up while the value of money remains unchanged, or when the value of money goes down while the value of the commodities remains unchanged. Conversely, there is a general decrease in the price of commodities only when the value of commodities decreases while the value of money remains unchanged, or when the value of money goes up while the value of commodities remains unchanged. Second, the price of commodities fluctuates under the influence of the supply and demand situation in the market. It goes up or down as the value of the commodities fluctuates from one moment to the next. Third, it is the value of the commodities which in substance forms the foundation and provides the theoretical basis for determining their prices. The value of commodities is determined by the three major components represented by C-V-m. Their value fluctuates as the production capability in society and the labor production rate go up and as scientific and technical developments continue to be made. Any change in any direction is bound to have a bearing on commodity prices. The points mentioned above serve to clarify one principle, namely, that prices are subject to change and that various factors interact to exercise mutual restraint. History tells us that ever since the production of commodities and the use of money in society, the price of commodities has changed with every change in the circumstances. There has never been a single price for the same commodity in the same market. That being the case, fixed and unchangeable prices are neither scientific nor reasonable. It is true that in the early period following the establishment of the republic, the strict enforcement of unified prices in the unified market had served the useful purpose of taking over the bastions for setting up socialist markets, of beating back the landlords and the furious assaults mounted by the capitalists, of putting a stop to galloping inflation and soaring commodity prices, of maintaining the stability of commodity prices in the market, of stabilizing the livelihood of the people and especially of ensuring the smooth progress of the socialist "one persuasion and three reforms" movement. The problem is that following the completion of the socialist reform and as the unified market came to be developed in a proper manner, it became untenable under the circumstances to continue to support the position that the same commodities should be sold at the same price, a position bolstered by the influence of the old traditional viewpoint over a long period of time. It is also my opinion that the maintenance of unified prices over a 10-year or 20-year period by the nation is a result of the tendency to treat market prices in a sweeping manner without considering changes in the circumstances. In essence, the setting of fixed and unified prices at a time when commodities are being produced according to a plan under socialism smacks of state monopoly. As was so aptly pointed out by Lenin, the setting of monopoly prices (however temporarily) diminishes to a certain extent the motive force of technical progress and

therefore the motive force of all progress and advancement. Furthermore, from the economic point of view, it is liable to create man-made obstacles to technical progress ("Selected Works of Lenin" Vol 2, p 818). Naturally, monopoly prices and the impediment they present to the path of progress cannot be discussed in the same breath, because they are in essence different from monopoly prices in imperialistic times. By putting monopoly prices into effect, it is the basic purpose and motive of the monopolistic capitalists, financial magnates and financial circles to wring out the highest possible profit, while it is the purpose of socialist countries to stabilize commodity prices, to ensure the smooth progress of economic construction and to maintain stability, security and unity in the life of the people. Nevertheless, however worthy the motive may be, once a gap is allowed to exist between the subjective and the objective points of view, the outcome is often opposite to what is anticipated. It is my opinion that the setting of unified and fixed prices has the following defects: First, instead of developing the leverage of prices as a moderating factor, it has the opposite effect of further reducing our control over the ratio in the national economy. Our failure to reduce the production of commodities in abundant supply and to increase the production of commodities in short supply is one example of the opposite effect caused by the setting of unified and fixed prices. Second, it does not serve to open up the channels of circulation and to facilitate the flow of materials between the urban and rural areas. Third, it does not serve to promote normal competition among the enterprises, to improve the management of operations and to foster unity among the businesses. Fourth, instead of providing an accurate gauge for measuring the operational standard of the enterprises, it tends to cover up the defects of their operations.

3. Advantages of Setting Different Prices for the Same Commodities in the Same Market

At present, the adoption of the multiple channel form of management and diversified operations and especially of the system permitting the setting of different prices for the same commodities has effectively overcome the defects resulting from the setting of fixed and unitary prices by our nation over a long period of time. It has also broken the deadlock created by the setting of monopoly prices which apply to the whole nation, opened the way for reforming the circulation system and made it possible to gradually exercise control over commodity prices. To sum up, the setting of different prices for the same commodities in the same market has the following advantages:

First, it serves to promote competition and unity among the enterprises. Competition is consistent with the economic law which applies in particular to the production and exchange of commodities. However, the overconcentration of the pricing system and the excessive and stifling control over prices in the past had to a certain extent stymied and cancelled out competition to the great detriment of production, circulation, exchange and consumption. Following the establishment of the republic, the system of market management put an end to panic buying and transportation of goods by private traders. This measure has in actual practice made the local supply and marketing cooperatives or state-operated businesses the sole purchasers of agricultural and subsidiary agricultural products, thus ruling out competition from other purchasing units.

Competition should be developed in the production of commodities under socialism. The adoption of the multiple channel form of operations and the multiple pricing structure for the same commodities has not only dealt a blow to the practice of setting monopoly prices and of engaging in operations on a monopoly basis by government officials in the commercial sector, but has also helped to promote competition among the enterprises, because the setting of different prices for the same commodities serves as an inner motive force which provides an impetus to competition. In a certain sense, it is prices which make for competition. The coexistence of the multiple channel form of management and the diversified prices structure also serves as a key to open up competition. Experience during the past 2 years has proved that the development of competition has engendered a great motive force which has impelled the various trades and businesses, especially the state-operated enterprises, to go about their operations in a creditable manner, to improve their attitude in providing service and to improve the quality of their products.

Second, it serves to improve the operation of the enterprises. Experience shows that the coexistence of the multiple channel form of management and the diversified prices structure has motivated the enterprises to seek every means to broaden their sources of income and to economize on expenditures, to increase income and reduce expenses, to tap their potential resources, to raise their standard of operation, to speed up the circulation of funds, to reduce the number of links, to lower expenses and to expend the least to reap the highest economic benefits. Its effect on state enterprises is particularly noticeable. Let us take the state-operated Jiaodian Company in Chongqing as an example:

Unit: 10,000 yuan

Period	Total amount of sales	Difference between income and expenditure	Rate of cost	Circulation of funds		Profit	
				No of times	No of days	Amount	Percentage
1978	9,399	9.61	3.68	2.05	176	492	5.24
1979	11,806	9.21	3.19	2.35	153	609	5.16
1980	15,053	5.3	2.75	2.81	128	143	0.95
Plus or minus percentage of 1980 compared to 1978	+60.16	44.85	-25.27	+37.07	-27.27	-70.93	-80.87

From the above chart, it may be seen that the total amount of sales has increased and the circulation rate of funds has accelerated year by year. While the cost and the difference between income and expenditure have dropped correspondingly, the absolute amount of profit has fallen dramatically. Comparing 1980 to 1978, the amount of sales of commodities has increased by 60.16 percent, the circulation rate of funds has increased by 37 percent and the cost level has dropped by 70.93 percent. If the company fails to step up its purchasing and marketing

activities and to speed up the circulation of funds, the amount of profit will drop even further. This state of affairs cannot but exert a motive force and a pressure on state enterprises.

Third, it serves to open up channels, to invigorate the market and to put a restraint on commodity prices. The adoption of the single channel form of management and the single price system in the past had blocked up certain channels and slowed down the flow of commodities, so much so that certain mountain products, native products and special local products, unable to find a market, were left to pile up on the ground while the markets ran out of supplies. Because the prices of certain products were unreasonably low or because the price difference was too small, the purchasing units were reluctant to engage in the operation. The opening up of a multiplicity of channels and the adoption of the diversified operations system as well as the diversified prices structure have made it possible for those engaged in the business to make a profit, so that there is now a larger amount of commodities in the market, an increase in the design and variety of commodities, prosperity in the market and resurgence in commercial operations. Taking the No 1 Operations Department of the Sundry Daily Commodities Company in Chengdu as an example, although the amount of sales has not increased to any great extent since 1980, the variety of products has increased from 35 to 60 major categories consisting mostly of small new and replacement commodities. More than 10 types of plastic products alone, such as ladles, buckets, ropes and bottles which had never before been put in the market, are now made available to the customers.

The vast majority of the commodities which have made their appearance in multiple channel operations are those which were in short supply. At one time, the supply of these commodities was inadequate to meet the demand. However, as a result of organizing the supply of commodities through the multiple channel form of management, a large quantity of these commodities have made their appearance in the market and the prices of these commodities have been on the downward trend. That is especially true for industrial products, the prices of some of which have been greatly reduced. The setting of different prices for the same commodities in the market has also made it possible to reduce prices, because it is obviously impossible for the enterprises to compete successfully by selling their products at high prices. The vast majority of customers, reluctant to pay higher prices, prefer to buy quality products at low prices, or to buy consumer products of the same quality at lower prices. For this reason, the producers and those engaged in business operations have no choice but to adopt the policy of selling more for lower profits in order to promote sales, to step up their purchasing and marketing activities and to stabilize the market. As was pointed out by Marx, the way to compete is by selling commodities at lower prices.

In summation, the adoption of the multiple channel form of management and the diversified prices structure has had a most beneficial effect on promoting competition, improving the operational administration of the enterprises, opening up the channels, invigorating the market and stabilizing commodity prices. It also facilitates production, circulation, exchange and consumption. It should, however, be noted that many problems and contradictions have now arisen. For instance, how are we to organize the circulation of commodities

according to the economic divisions or according to the trades and businesses instead of administration divisions? How are we to do a good job in regulating the market under the guidance of the planned economy? How are we to effectively overcome the tendency to lay in commodities in a blind manner through a multiplicity of channels by strengthening market planning and the adoption of such methods as the contract system? How are we to promote coordination between the main channels and the secondary channels and to ensure the unimpeded flow of the main channels? How are we to handle in a proper manner the contradiction between dealing in industrial products from other areas and promoting the production of local industrial products? And how are we to increase the income of the national treasury and the local treasury following the adoption of the "preparing meals on different cooking stoves" principle? It can be seen that the complex problems cited above still await solution on the basis of practical experience. It is therefore incumbent upon the theorists on commodity prices and those who are actually engaged in the work to exert their joint efforts in engaging in investigation and research.

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FOREIGN TRADE

UTILIZING FOREIGN CAPITAL FOR JOINT VENTURES ANALYZED

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[Article by Gu Fuyou [7357 4395 0147] and Zhu Kaiyi [2612 7030 7328]:
"An Exploration into Some Issues in Utilizing Foreign Capital for Chinese-
Foreign Joint Ventures"]

[Text] There are today mainly the following channels for China to utilize
foreign capital.

I. World Bank Loans: World Bank loans consists of two categories.

1. Project Loans: Project loans are issued according to World Bank stipulations. The bank must examine the economic results of the projects for which the loans are applied. Those already decided include: (1) education; (2) agriculture and livestock; (3) communication, transportation, wharfs and ports; (4) oil exploitation; (5) light industry.

2. Nonproject Loans: The bank issues, without specifying the projects, a general loan to the China Investment Bank for its disposal according to China's national economic development plans.

Loans through the above channel will amount to \$ x x billion at an average annual interest rate of around 7 percent for a term of 20 to 30 years.

II. International Idle Money: International idle money is assimilated by the Bank of China at a higher annual rate of interest and for a shorter term. This money is under the bank's unified disposal.

III. Trade Credits: The Bank of China obtains trade credits from Britain, France, Italy, Belgium, Sweden and Canada. In other words, when China purchases technological equipment abroad, the banks of the exporting countries arrange the loans for the payment of the purchases. The credit limit to the buyer which has already been agreed on amounts to \$ x x billion, at an annual rate of interest of around 10 percent.

IV. Foreign Capital Invested in Joint Ventures in China.

V. Foreign Bank Loans to the Joint Ventures.

Currently, x x foreign banks have been issued approval to set up agencies in Beijing, and x banks are in the process of filing applications. The purpose of the foreign banks in setting up agencies is simply to develop future business in China. Obviously, there are many channels for us to utilize foreign capital. We will now explore the relevant issues in utilizing foreign capital for joint ventures in three aspects.

[A] Basic Conditions of International Economic Cooperation since the Open Door Policy

I. International Intercourse prior to the Open Door Policy:

China introduced the economic open door policy after the Third Plenary Session and the Fifth NPC decided to shift the focus of work of the entire party and entire country to the modernization construction. Nevertheless, even before that, international intercourse did exist. The examples are:

1. International trade through the port of Hong Kong.
2. Trading with the Soviet Union and Eastern European countries under trade agreements.
3. Trading with Japan and other capitalist countries through foreign trade setups (e.g., trading rice for flour with Canada).
4. Directly dealing with foreign firms through the spring and fall Guangzhou trade fairs.

Under today's conditions, it will be impossible to develop our national economy if we close the door to international intercourse. Thus, international contact is unavoidable, and the development of international economic cooperation is an objective necessity.

II. International Cooperation since the Open Door Policy:

Japan and some Eastern European and Asian countries and regions have a common experience in the success of their economic development. Generally speaking, it is the "three imports"—foreign capital, advanced foreign technology and foreign scientific management method. In opening our door to the outside world, we must also become skilled in the "three imports" in order to serve the four modernizations.

Our international trade in the past mainly consisted of dealings between governments, not with private foreign firms. After introducing the open door policy, we "opened up" to the enterprises and firms of capitalist countries, thereby expanding international economic cooperation. Today,

we mainly follow these three measures: 1. permitting our state and collective enterprises to process and assemble materials sent by foreign firms and to take part in compensation trade, cooperative production or operation and joint ventures; 2. permitting foreign firms to set up resident agencies and enterprises and improve trade relations; 3. opening up special economic zones and encouraging foreign businessmen (especially those of Chinese descent), overseas Chinese and our compatriots in Hong Kong and Macao to invest in plants and joint ventures. (At present, Guangdong's Shenzhen, Zhuhai and Shantou and Fujian's Xiamen, a total of four, have been approved as special zones).

We will now discuss briefly the four forms of economic cooperation with Western firms and businessmen.

1. Material Processing, Parts Assembling and Production by Sample:

Material processing, parts assembling and production by sample are mainly carried out by utilizing our labor and existing equipment. The raw, secondary and packaging materials, and some equipment when necessary, are furnished by foreign firms, and our plants process or assemble according to the quality, specifications and styles required by the other parties. The finished products are delivered to the other parties for marketing, and we are paid for the processing fee. The cost of any equipment furnished by the other parties is deducted from the labor. An alternative method may be followed: The material shipped in and the products shipped out are priced severally and a contract formed. We earn the difference and use it to pay for the equipment.

2. Compensation Trade:

The foreign firms furnish the technology, equipment and necessary material, and we do the production and use the products to pay for them. Under this measure, the cost of the imported technology and equipment should, in principle, be paid for out of the products manufactured by means of such technology and equipment, but other commodities may also be used as payment after application to and approval by the proper central or local units in charge of the commodities in question. The former is called direct compensation and the latter indirect or combined compensation.

The main purpose of "three-incoming and one-compensation" [incoming material, parts and samples and compensation for imported technology and equipment] is to develop export commodity production and increase foreign exchange receipts. It may be desirable to concentrate more on products requiring intensive labor. By utilizing our existing plants and equipment to the maximum, exploiting the potentials, innovation and remodeling, importing advanced technology and equipment, raising labor productivity and increasing the varieties of products, we will expand export and create foreign exchange. The practice of "three-incoming and one-compensation" should be gradually expanded to include high-level processed articles, in

order to change the structure of our export commodities and replace imported raw material with our domestic raw material.

3. Cooperative Production and Operation:

According to the explanation of the United Nations Industrial Development Organization, cooperative production and operation are contractual undertakings. The two parties to an undertaking sign an agreement or contract which concretely stipulates the rights and obligations of the parties. As a rule, the foreign firm furnishes the capital, equipment, industrial property rights and technical know-how, and the Chinese side provides the land, market, service objectives and natural resources. The two sides share the products, marketing receipts or profit according to the agreed proportions.

Cooperative production is cooperation between the Chinese and foreign sides in industrial production. Take Shantou's carpet plant for instance: The foreign side makes the investment and we furnish the plant site and buildings. The foreign side receives 60 percent of the profit and our side 40 percent, and the former underwrites the losses. Cooperative operation is cooperation between the Chinese and foreign sides in commerce and service trades. Currently, cooperative operation in service trades is in the majority. In tourism, for instance, the foreign side invests in hotels and restaurants and we furnish the sites and service objectives. As a rule, construction takes 3 years and operation is for a term of 10 years. The profit is shared according to agreement, and the foreign side recoups its capital plus interest and receives the appropriate profit. At the end of the term, the hotel or restaurant is transferred to us gratis.

4. Joint Ventures:

According to the explanation of the United Nations Industrial Development Organization, a joint venture is a joint undertaking in the form of investment or stock. By cooperating, China's state or collective economy and private foreign capital form a combine. According to the relevant provisions in the "Law on Chinese-Foreign Joint Ventures," a joint venture is a limited-liability legal person, which has the right to own property, the right to operate and manage and the right to deploy personnel, and the profit or loss is shared according to the proportions of investment. Utilizing foreign capital, the joint venture is one important means to serve the socialist four modernization construction. As once mentioned by Lenin, its characteristics are: joint capital, joint operation, joint risks and sharing the profit or loss. Using foreign capital, advanced technology and management method suitable to our national conditions to improve our production and operation will benefit our socialist economic construction. As a result of developing Hong Kong's strong points in operation and management, the business of catering by the jointly operated Beijing aviation foods corporation, for instance, has expanded

to almost all international flights, and the volume of business has grown some 10 times.

The four forms of international economic cooperation discussed above follow the "three imports" to different degrees. As a rule, the "three-incoming and one-compensation" is regarded as the elementary form, cooperative production and operation the intermediate form and joint venture the advanced form.

III. Prospects of the Various Forms of Economic Cooperation under the Open Door Policy:

Currently, material processing, parts assembling and production by sample are commonplace throughout the country; therefore, they are fairly flexible, undertaken only when profitable. Compensation trade is also rather simple. A silk plant in Shanghai, for instance, imported printing and dyeing equipment from Japan, sold the kimono silk produced by it to Japan, and used the profit to pay for the equipment. Cooperative production and operation are also quite widespread. Today, the progress of joint ventures is slow, because both sides have some mental reservations: The foreign firms worry about possible Chinese policy changes, and some of our comrades are concerned about possible deviations from the main socialist orientation. Currently, such reservations are being gradually overcome. By the end of June 1982, only x x joint ventures were approved throughout the country, and only x x were in operation. It was indeed too few. For this reason, the leading comrades of the Party Central Committee made criticisms. In a conversation with foreign visitors, they suggested that medium and small joint ventures increase to the thousands and tens of thousands. Evidently, when it comes to large ones, as we lack experience, caution is required, but in terms of medium and small ones, we can indeed proceed a little faster. At the China investment promotion conference jointly called by the Chinese Foreign Economic Relations and Trade Ministry and the United Nations Industrial Development Organization on 7 June 1982 in Guangzhou, 130 international economic cooperation projects were announced, including material processing, parts assembling, compensation trade, cooperative production and operation, and joint venture. We expect the developmental rate of joint ventures will pick up.

[B] Some Issues in Importing Foreign Capital for Joint Ventures

The practice of the past 2 plus years tells us that attention should be given to the following four often encountered issues when importing foreign capital:

I. Total Investment and Its Proportions:

In January 1979, the Fifth NPC passed and promulgated the "Chinese-Foreign Joint Venture Law" (hereinafter referred to as the Joint Venture Law) which clearly stipulates that a joint venture is a corporate organization

of limited liabilities. On the amount of investment, it only stipulates that, generally speaking, the proportion of foreign investment should not be less than 25 percent, but places no limit on the total investment. In practical implementation, the authority to grant approvals depends on the total investment: Investments of \$5 million or more are approved by the central government, and those below, as a rule, by the provinces, municipalities and autonomous regions. The Joint Venture Law specifies that the proportion of foreign investment should not be too low, for otherwise it will be detrimental to the implementation of the principles of joint capital, joint operation, joint risks and sharing the profit or loss. Among the approved joint ventures at present, the proportions of investment are generally 51 percent Chinese and 49 percent foreign. As the law only sets a minimum, but no maximum, if the proportion of foreign investment in a venture exceeds ours, it may also be approved. Under the law, a joint venture should, according to its constitution, organize a board of directors, and the number and selection of its members are determined by consultations between the Chinese and foreign sides. In case of major issues, the board must follow the principle of equality and mutual benefit and decide by consultations. According to the present conditions, foreign investments are still somewhat of an exploratory nature; therefore, the amounts and the proportions are not large. Nevertheless, by firmly implementing the principle of equality and mutual benefit, we believe that there will be a gradual improvement. According to international practice, the chairman of the board is the legal representative of the joint venture. Regardless of the proportions of investment, the chairman is always a Chinese and the vice chairman a foreigner. It is an embodiment of the principle of sovereignty. The general manager and assistant general manager are decided by the board of directors in conference. Currently, the two sides generally take turns to serve. In some joint ventures, we first serve as the assistant, and take the position of the general manager several years later after gaining experience. It is a desirable method.

II. Raising Money for Investment:

The Joint Venture Law stipulates that each side raise its own funds. In practice, we naturally have no problem. In regard to the foreign side, besides funding by its head office, there are also instances where a loan is obtained from a foreign bank on credit. In the latter case, the foreign side should be responsible for the interest, which has nothing to do with the joint venture. There is also the situation where both sides obtain loans from a foreign bank to invest--a fairly commonplace international practice. By so doing, 1 yuan of capital does several yuan of business, and as long as the profit rate exceeds the interest rate, there will be a profit. Under this situation, sometimes, the application for the loan on the entire investment is made by the foreign side, and we guarantee to it the repayment of our share of the loan; at other times, the foreign side and we severally apply for loans, each responsible for the interest on its own loan. It is rare for us to apply for the loan on the entire investment and have the foreign side guarantee

to us the part for its investment. As we are not clear about the conditions of the foreign firms, it is impossible for us to rashly undertake the responsibility.

III. Forms of Investment:

According to the provisions of the Joint Venture Law: 1. The parties to a joint venture may make their investments in forms of cash, material objects, industrial production rights or specially-owned technology. 2. The technology or equipment used by the foreign side as investment must be indeed advanced and compatible with China's need. Here we have the pricing problem when transferring specially-owned technology. 3. The Chinese investment may include the use of plant sites; thus, there is the pricing problem of such use. Among the various forms of investment discussed above, cash and material objects are tangible assets, and the use of sites and specially-owned technology intangible.

1. Cash Investment:

Mainly it is the problem of exchange rate. Currently, the capital of joint ventures is generally in U.S. dollars and should be computed according to the Bank of China quotations of the exchange rate. Some foreign joint entrepreneurs have proposed that it be computed according to the 2.80 yuan of China's foreign exchange rate to settle domestic accounts. It is a contradiction. We want to insist on the Bank of China quotations for computation, because the internal accounts settling rate is a subsidy to encourage export, not a foreign exchange quotation. If our renminbi investment is converted according to it, it is equivalent to devaluating our investment and imposing a loss on us. As the foreign exchange rate fluctuates and there is a differential between buying and selling, the conversion, according to the provisions, should be computed according to the mean between the Bank of China buying and selling rates on the day of arrival of the investment. It is perfectly fair and reasonable.

2. Investment in Material Objects

The key problem is appraisal. In regard to the investment in our old plant buildings and machine equipment, as the original value of labor of our fixed assets was relatively low and some depreciations excessive, it will be unreasonable to follow the book value. There should be a reappraisal, to be jointly decided according to the international market value, the remaining years of life and the principle of fairness and reason. The appraisal of machine equipment and material, the tangible investment of the foreign side, should be no higher than the international market value at the time for similar objects.

3. Specially-Owned Technology and Sites

Investments in forms of specially-owned technology and use of sites are often a difficult problem in the negotiations. Foreign technological

secrets are transferred for a price, which is very high. It is different from the common improvement by means of technological interchanges under the socialist system. As for land, it is bought and sold freely abroad, while in China, it belongs to the state, has no book value, and may not be bought or sold. It is determined by the different social systems. The Joint Venture Law permits the foreign side to use specially-owned technology and the Chinese side to use plant sites as investments.

Internationally, there are generally three modes of payment for the transfer of specially-owned technology: (1) One-time transfer, including down payment and percentages, to be paid in installments; (2) besides the down payment, a certain percentage of the volume of products, marketing receipts or profit as payment for the percentages on the technology involved; (3) no down payment, only the percentage on the technology involved.

In using specially-owned technology as investment, two problems have to be studied: the appraisal of the investment and its book entry. The appraisal is actually decided by agreement by studying and computing the economic feasibility of the investment. We may, through our "window" abroad, clarify the degree of technological advance of the foreign entrepreneur, the possible surplus profit level abroad, and its price when transferred to other countries, in order to proceed in the negotiations. Meanwhile, we can compute the amount of capital by means of the surplus profit (surplus above the anticipated profit of the joint venture) according to the anticipated rate of profit of the joint venture to determine whether the pricing of the specially-owned technology is reasonable. If the foreign side uses its specially-owned technology as investment and collects a percentage on top thereof, then we must compute its current value by adding the total of the percentages to be paid during the term of the venture and the cost of the transfer to decide whether the price is reasonable. In regard to the book entry of the specially-owned technology used as investment, the joint venture must obtain a guarantee on all the technical materials and the training of the technicians and workers by the foreign side in their mastery of the technology and ability to create standard products as the basis. Prior to it, it will doubtlessly be appropriate for us to first enter the investment as "capital receivable" and later, after the technology is mastered and applied, transfer it under the heading of "specially-owned technology."

The pricing of industrial production rights (including patent and trade mark rights) may be accomplished by referring to the pricing of specially-owned technology as investment and by agreement of the parties concerned.

4. Use of Plant Sites

The current provision on the use charges for plant sites are x yuan minimum and x x x yuan maximum per square meter per annum. The suburbs of large and medium-sized cities are, as a rule, appraised at not less than x x yuan per unit. The range of the use charges for sites is relatively wide, because the area for industrial use is large, whereas the high-rises

for commerce require small areas. In addition, with the different conditions between urban and suburban areas and between the coast and borderland, if the range is not wide, it will not fit the complex conditions. After negotiation and agreement, we can take the sum total of the use charges for the entire term of the joint venture (where, by stipulation or agreement, the use charge is paid annually, the current value may be used for computation) as our amount of investment.

The foregoing are the three issues directly related to investment. In regard to problems concerning money, such as marketing the products to create foreign exchange, balancing foreign exchange receipts and disbursements, and repayment of capital upon termination of the venture, we must cover all angles in our consideration. Only thus will we protect the rights and interests of the state and implement the principle of equality and mutual benefit.

[C] The Economic Feasibility of Utilizing Foreign Capital for Joint Ventures

Whether utilizing foreign capital for joint ventures is economically feasible is determined in two aspects:

I. China's Developmental Need

First, it is determined by the compatibility of a proposed joint venture with the developmental need of China's national economy. China's former Foreign Investment Control Commission proposed that, in entering a joint venture, requirements in four aspects must be considered:

1. Weak links and scarce products in urgent need of development in industrial and agricultural production.
2. Trades and professions in urgent need of new import technology and equipment.
3. Products which are mainly for marketing abroad and which can utilize the marketing networks of foreign firms in the international market to enter the market and create foreign exchange for the state.
4. Utilization of the investment in the existing fixed assets.

II. Economic Feasibility Calculation

Next, it is determined by the result of the economic feasibility calculation. In terms of the microeconomy and the enterprise, the profit level of the joint venture must be higher than before the joint undertaking or than other enterprises in the same field. In terms of the macroeconomy and the national economy as a whole, we must calculate the possible increase in fiscal revenue, the foreign exchange receipts, whether the undertaking will enlarge the scope of employment, promote technological

remolding and ease the supply of scarce products, help fill the gaps in the various branches of the national economy, etc.

Macrodecisions are made by the central, provincial, municipal and autonomous regional governments. In terms of an enterprise, the calculation of economic feasibility may be accomplished mainly by the following four technical computational methods:

1. Period of Recovery of Capital:

$$\text{Period of capital recovery} = \frac{\text{Cash outflow (amount of investment)}}{\text{Annual cash inflow (net profit + depreciation, etc.)}}$$

If the amount of investment, for instance, is 2,000,000 yuan and the average annual cash receipts from net profit and depreciation 1,000,000, yuan, the period of recovery of capital is:

$$\text{Period of capital recovery} = \frac{2,000,000}{1,000,000} = 2 \text{ years}$$

If the period of capital recovery of the enterprise prior to the joint venture or that of enterprises in the same field is 3 years (the specifications of computation before and after the joint venture must remain consistent; same for below), it will indicate that the joint venture is feasible.

2. Rate of Return on Investment:

$$\text{Rate of return on investment} = \frac{\text{Average annual net profit}}{\text{Amount of investment}}$$

If the amount of investment, for instance is 2,000,000 yuan and the average annual net profit 400,000 yuan, the average rate of return on investment is:

$$\text{Rate of return on investment} = \frac{400,000}{2,000,000} = 20\%$$

If the average rate of return of the enterprise prior to the joint venture or that of enterprises in the same field is 18%, it will indicate that the joint venture is feasible.

The flaw of the above two ways of computation is that the time value of money has not been taken into consideration. As money increases in value (viz., interest) with the lapse of time, the feasibility calculation should take into consideration the time value of money, i.e., the "cost of capital" must be computed. To compute the "cost of capital," usually the current value of capital recovery is computed according to the discount rate. The formula for computing the current value is:

$$\text{Current value} = \text{Capital} \times \frac{1}{(1 + \text{discount rate})^{\text{number of years}}}$$

When computed at the discount rate of 14%, the current value of 1 yuan of capital a year later, for instance, is

$$1 \times \frac{1}{(1 + 14\%)^1} = 0.877 \text{ yuan}$$

Therefore, the annual cash inflow from net profit and depreciation after investment cannot be calculated by simple addition, but must, to be more rational, be converted to the current value and thereafter compared with the cash outflow at the time of investment.

The following are two commonly used methods of computation which take the time value of money into consideration.

3. Net Current Value:

Net current value = Current value of total cash inflow - original investment

If the net current value is "0," it indicates that the rate of return on investment is equal to the discount rate. If it is a plus figure, it indicates that the rate of return on investment is greater than the discount rate and the joint venture is desirable. If it is a minus figure, it indicates that the rate of return on investment is smaller than the discount rate and the joint venture is undesirable.

Illustration:

<u>Year</u>	<u>Cash Inflow</u>		<u>Current Value/Yuan</u> <u>(discounted at 14%)</u>		<u>Current Value</u>
1	60,000	x	0.877	=	52,620
2	70,000	x	0.769	=	53,830
3	80,000	x	0.675	=	54,000
4	90,000	x	0.592	=	53,280
5	100,000	x	0.519	=	51,900
Current value of total 5-year cash inflow					265,630
Original investment					180,000
Net current value					85,630

According to the above illustration, when computing the joint venture on a 5-year term, the net current value is plus 85,630 yuan, indicating that recruiting foreign capital for the proposed joint venture is feasible.

4. Internal Rate of Return:

To find the level of return on investment realizable from a joint venture, the internal rate of return is often computed.

Illustration:

(1) Computed at the rate of 30% return

<u>Year</u>	<u>Cash Inflow</u>		<u>Current Value/Yuan</u>		<u>Current Value</u>
1	60,000	x	0.769	=	46,140
2	70,000	x	0.592	=	41,440
3	80,000	x	0.455	=	36,400
4	90,000	x	0.360	=	31,500
5	100,000	x	0.269	=	26,900
Total	400,000				182,380
Original investment					180,000
Net current value	400,000				2,380

(2) Computed at the rate of 35% return

<u>Year</u>	<u>Cash Inflow</u>		<u>Current Value/Yuan</u>		<u>Current Value</u>
1	60,000	x	0.741	=	44,460
2	70,000	x	0.549	=	38,430
3	80,000	x	0.406	=	32,480
4	90,000	x	0.301	=	27,090
5	100,000	x	0.233	=	23,300
Total	400,000				165,760
Original investment					180,000
Net current value					-14,240

According to the above computations, the internal rate of return is between 30 and 35%. The exact rate of return may be found by the mathematical complementary law method:

$$30\% + 5\% \times \frac{2,380}{2,380 + 14,240} = 30\% + 0.72\% = 30.72\%$$

$$\text{Or: } 35\% - 5\% \times \frac{14,240}{2,380 + 14,240} = 35\% - 4.28\% = 30.72\%$$

According to the above illustration, the internal rate of return of the 5-year term joint venture is 30.75%, which is fairly high, thereby indicating that utilizing foreign capital for a joint venture is desirable.

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FOREIGN TRADE

NEW TECHNOLOGY INCREASES PRODUCTION OF EXPORT COMMODITIES

Shanghai JIEFANG RIBAO in Chinese 18 Feb 83 p 1

[Article by Zi Yu [1311 7183] and Gao Xiaoxiao [7559 5135 4562]: "Through Importing Advanced Equipment from Foreign Countries and Supporting Improvement in Industrial Technology, the Shanghai Foreign Trade Department Vigorously Promotes Production of Export Commodities and Has Improved Industrial Technology in 323 Items, Resulting in an Annual Increased Output of 11.4 Billion Yuan"]

[Text] The Shanghai Foreign Trade Department has made use of foreign loans to bring in advanced equipment from foreign countries and from Hong Kong and actively support technical reforms in the relevant industrial departments, so that rapid and good economic results can be attained with small investments. This has given impetus to the development of the production of export commodities.

Since the Third Plenary Session of the 11th Party Central Committee, it has made a total investment of more than 1.4 billion yuan and foreign investment of more than 65 million yuan in the various trades such as textile, light industry, handicraft, medicine and chemical engineering. It has imported relatively advanced production equipment from more than 10 countries and regions such as Hong Kong, Japan, the United States and West Germany, brought in more than 9,750 complete sets of equipment into the country and completed 323 items of technological reforms. Technological reforms and the implementation of these reforms in production have given impetus to development in production. From 1981 onward, the annual value of output has increased by more than 11.4 billion yuan. The amount of export commodities in foreign trade has increased by more than 7.2 billion yuan and foreign exchange totalling more than 2.5 billion American dollars has been obtained. For example, 22 factories in food industry in Shanghai have been rebuilt; a small number of plants have been expanded and more than 360 sets of equipment have been installed, thus improving productivity. In a year, there has been an increased output of 15,000 tons of "Plumrose" canned food, "White Rabbit" candies, "Happy" crackers, "Happy" chocolates, "Royal Jelly" and "Cocoa" and 53,000 boxes of cigarettes. More than 13 million U.S. dollars have been gained in export commodities.

After technological renovation through the import of foreign equipment, the factories concerned have not only improved the quality of their products but also improved their style and increased their variety, and met the demands of

the international market. Take the Shanghai Leather Shoe Plant No 2 for example. In the past, the equipment was simple and crude; the plant was outdated and the leather shoes were basically made manually. Low-quality shoes accounted for 89 percent of the total value of output. Through the import of production equipment valued close to 800,000 U.S. dollars and renovation of the plant, there have been marked changes in the structure of the products. The production of medium and high quality leather shoes has been raised from the 11 percent in the past to 60 percent. Within 2 years, they have already paid back all the investments spent on imported equipment. In Shanghai Tire Plant No 2, since the production equipment and technology were relatively backward in the past, the production cost of the tires was high, the style was old fashioned and they could not meet the demands of the international market. Later, they spent 2.58 million U.S. dollars on importing certain key equipment from countries such as Japan, the United States and West Germany and filled in the gaps to complete a series of equipment. In the latter half of 1979, after the equipment had been installed and put into operation, the quality of the tires was improved and could meet the demands of driving with an overload, at a high speed, at a high temperature and on rough road pavements. As a result, production costs went down and styling improved, which brought about an increase in export.

After the import of equipment and technological improvement, there has been an improvement in the packaging of certain export commodities, thus enhancing their marketability. The Foreign Trade Department has rendered key support to 15 plants engaged in packaging and printing, rebuilt and expanded the plants, imported advanced foreign equipment and improved the quality of printing. This has increased the capacity of printing and packaging by more than 4.8 billion printing times and raised the output of paper cartons by more than 3.8 billion. For example, Shanghai People's Printing Plant No 7 does the wrapping and packaging of export commodities. In the past, because of the outmoded equipment and inadequate technological level, the wrapping paper did not look good. In the past 2 years, they have imported key equipment such as machines for making printing plates with electronic coloring, four-colored rubber printers and embossers from countries such as West Germany. The quality of packaging material has thus been greatly improved and is close to the international standard. In 2 years, more than 1,400 items have been designed and printed. The printed matter is brightly colored and has a three-dimensional effect, and has provided conditions for raising the prices of export commodities and increasing export.

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FOREIGN TRADE

IMPORT OF ADVANCED TECHNOLOGY DISCUSSED

Fuzhou FUJIAN RIBAO in Chinese 23 Jan 83 p 2

[Article by Chen Lianzhen [7115 5114 4176]: "A Breakthrough Is Necessary in Importing Advanced Technology"]

[Text] Comrade Hu Yaobang pointed out in his report to the 12th CPC National Congress that "it is necessary to actively import some advanced technology suited to our national conditions, especially the advanced technology which will be helpful to the technical transformation of enterprises. An effort must be made to digest and develop them in order to promote our production and construction." This important discourse not only expounds the important role played by, but also indicates the direction for the import of advanced technology. This is the guiding ideology for us to handle well the import of advanced technology from now on.

Utilization of foreign capital, introduction of advanced technology and the import of key equipment are the important items in this respect. The advantages are many. First, they can accelerate the technical transformation of enterprises and help them adopt new techniques, new equipment and new technology to replace old techniques, old equipment and old crafts in order to facilitate economic development in our country and strengthen the capacity for self-reliance. Second, they can accelerate the upgrading of our exports through qualitative superiority of the new generation products so that the competitiveness of our products in the international markets can be strengthened and our export trade be promoted. Third, assimilation of foreign advanced technology can shorten the time it takes to conduct experiments, cut down expenditures in trial-manufacture and shorten the amount of time it will take to catch up with and overtake advanced world levels. Fourth, we can learn from them the experience of scientific management in socialized large-scale production to help enterprises improve their own management and administration. Fifth, we can thus train, bring up and temper at a faster pace a number of qualified economic and technical personnel suited to the needs of modernization, and professionals specialized in foreign economic relations and trade.

In recent years, we have achieved certain successes in importing advanced technology into our province. However, looking at the actual situation, we are not satisfied with both its pace and scope. A new breakthrough is necessary.

In our province, there are a lot of favorable conditions for us to devote major efforts to importing advanced technology. There is great potential to exploit. First, the party Central Committee has authorized our province to put into effect special policies and flexible measures in matters related to foreign economic relations. We have enjoyed a lot of preferential treatment in implementing policies and measures for importing advanced technology. Second, at present, the capitalist world is in an economic recession. The international monopoly capitalist groups are anxious to look for outlets. Therefore, they compete among themselves to transfer surplus capital, technology and equipment to other countries. This is extremely advantageous to us in importing advanced technology. The technology employed by most of the more than 10,000 industrial enterprises in our province is backward and their equipment is old. There are good prospects for us to import advanced technology and key equipment. In recent years, we have made great progress in foreign economic and trade activities. Not only have we accumulated a certain amount of foreign exchange which has provided a solid material base for importing advanced technology, the personnel concerned also have, in varying degrees, mastered certain experience and the knowledge of management and administration in modernized large-scale production. In the light of the present foundation of the national economy in our province, we feel that since state financing is still relatively difficult, the foothold for promoting production must be transferred as quickly as possible from depending mainly on expansion of peripheral production capacity to relying principally on the technical transformation of existing enterprises. For the purpose of accelerating the pace of technical transformation in our enterprises, to actively and prudently introduce foreign advanced technology and import key equipment under the premise of self-reliance is a very important link. If, in the last 3 years of the Sixth Five-Year Plan, we were to spend \$50-60 million annually to import nearly 200 production lines, or, during the period of the Seventh Five-Year Plan, we were to spend \$100 million per year to import 300 to 400 production lines, together with the introduction of technical consultations and services, a greater change of the setup of production and the product mix of industrial enterprises in our province would take place in the year of 1985. The task of readjustment would then be more smoothly carried out. By 1990, the economic outlook in our province must undergo a considerable change that will provide a solid material base for a vigorous development of our economy in the following 10 years. Therefore, it is imperative to do the job of importing advanced technology well and in a down-to-earth manner. How then can we get a good handle on our work in the days to come?

1. Continue to emancipate the mind and to fully understand the importance of the import of advanced technology. It is necessary to put the import of advanced technology in a correct relationship to the protection of national industries. National industries must be protected and blind import of advanced technology not suitable to the local situation but only for the purpose of endlessly seeking new things from abroad must be opposed. However, it is still necessary to import the advanced technology and key equipment which cannot presently be mastered or manufactured domestically or which are needed in the technical transformation of enterprises. Doing a good job in importing advanced technology can also be regarded as a way to better protect and develop our national industries. Import advanced technology and equipment is absolutely not "worshiping and having blind faith in things foreign." Protecting

national industries is not closing the country to international intercourse, nor protecting backwardness. Only by correctly realizing the dialectical relationship between the two can we do a good job in importing advanced technology more actively and with more initiative.

2. Take the transformation of the old industries as a basic starting point for the import of advanced technology so that the import of advanced technology and equipment can be combined with the creation of production facilities in the province. At present, the industrial equipment in our province is backward. Energy and communications are the weak links and the export mix is irrational. Pinpointing these weak links, we must stress the import of high-efficiency equipment for the machine-building industry that can conserve energy and reduce the consumption of raw and other materials. We must also stress the import of new skills and new techniques for light and textile industries that can develop new products and improve the quality of products so that they can be upgraded to replace products of the old generation; the import of advanced technology and equipment that can help export-oriented industries transform the export mix in accordance with the standard of international market; the import of parts and accessories that can develop new types of raw and semifinished materials industries such as cement, petroleum and plastics; and the import of production lines that can promote the technical transformation of the key industries so that the ability to promote industrial modernization in our province can be enhanced.

3. Industry must coordinate closely with trade to handle well the overall planning and to raise the economic results of importing advanced technology. According to the existing system, the department in charge of foreign economic relations and trade is responsible for the import of advanced technology and the department in charge of industrial production is responsible for technical transformation. Therefore, work can only be done through the concerted efforts of these two departments. All places and trades must proceed from actual conditions and distinguish between importance and urgency according to actual material and financial situations to actively and prudently work out a well-conceived plan for importing advanced technology. A thorough investigation, equipment and production capacity of enterprises which are in need of advanced technology must be carried out. A similar investigation must also be made of the advanced nature, adaptability, and the prospects for development of the advanced technology and equipment to be imported. The capitalist countries are anxious to sell their surplus capital and equipment in large quantities and to transfer technology. We must utilize such a psychology to select the most advantageous time and the most effective way to import technology and equipment which are most advanced and suitable to our needs at the lowest price. Moreover, we must make sure that the domestic coordination such as counterpart funds, as well as the raw and semifinished materials, and energy and transportation needed as a result must be given overall consideration and arranged, in order to make the most of production capacity as soon as possible. We must also handle well the assimilation and development of imported technology and further spread its application so that our capacity for self-reliance can be enhanced.

4. The work of importing advanced technology must be supported and encouraged by policies and measures. In our province, we have just started importing advanced technology. In many areas and departments, not only do they lack experience, but, more important, there are some drawbacks in the present economic management system which do not encourage but rather restrain the import of advanced technology. As a result, many departments are content with things the way they are and lack the inner impetus to do a good job in importing advanced technology. This kind of situation must be altered. In carrying out the work of importing advanced technology, the departments concerned must study such matters as customs duties, taxation, profits, prices and preferential loans. Parts and accessories needed to be supplied domestically, funds, raw and supplementary materials, energy supply and marketing of products must be brought into the orbit of [overall] planning. The enthusiasm of enterprises to import advanced technology and equipment for carrying out technical transformation must be aroused.

5. Special attention must be paid to building up a contingent responsible for importing advanced technology. The level of political ideology and the standard of professional skill of the contingent responsible for importing advanced technology can be improved by various ways such as advanced study, training, practice. Methods such as sending them abroad to study or engaging foreign instructors can be adopted to enable them to master the skills needed for installing and operating advanced equipment and applying and assimilating advanced techniques to suit the needs of importing advanced technology.

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GENERAL

SUGGESTIONS ON STATISTICAL WORK REFORM PUBLISHED

Beijing JINGJI RIBAO in Chinese 26 Feb 83 p 3

[Summary of Letters: "Suggestions on the Reform of the Statistical System"]

[Text] After the publication of the comments and articles of Comrades Sun Yefang [1327 0396 3455], Song Ping [1345 1627] and Li Chengrui [2621 2052 3843] concerning statistical work on 7 and 12 January in JINGJI RIBAO, the readers have sent in a number of letters and pointed out that statistical work runs through the various functional departments of the national economy and plays the important role of reflecting and supervising the development of the entire national economy. They requested that statistical work be strengthened, statistical system be reformed and a new situation in statistical work be created.

It Is Necessary to Grasp Statistical Work From the Basic Level Unit

Lu Junsheng [7120 0193 0581] of Huailai County Trade Company in Hebei wrote to us: At present, the upper levels have placed importance on statistical work but the lower levels have neglected it. Certain leaders at the basic level units considered that statistical work is not indispensable. They do not check the reports and show no concern for the reports. Some do not take into consideration the educational level or vocational knowledge in the appointment of statistical workers as if anybody could do it. Zhao Yunsheng [6392 0061 0581] of Zhemeng Statistical Bureau in Inner Mongolia wrote and told us that the statistical bureau in a certain administrative division called an annual meeting at the end of last year. Only one-third of the units participated and most of the participants were not involved in statistical work. Yang Tieliang [2799 6993 5326] of Nanpai River Supply and Marketing Cooperative in Huanghua County in Hebei province wrote to us and pointed out that it is necessary to eliminate the undesirable situation whereby statistical staff at the basic level units are engaged in too many diverse duties and do not take up statistical work. Many letters pointed out that statistics is the basis of planning and that statistical figures come from the basic level. The accuracy of statistical figures at the basic level units directly affects the quality of statistical work in that system, in that region and even in the whole country. It is therefore necessary to pay attention to statistical work at the basic level and we must grasp it from the basic level unit.

We Must Have Our Own Independence

Ye Liang [0673 5328] of Qingshan Supply and Marketing Cooperative in Linan County in Chekiang province sent us a letter and said that some leaders tend to exert their influence on statistical work in accordance with their subjective views so as to make the statistical figures suit their own "wishes". For example, when they see that the annual plans are not likely to be fulfilled, they would go so far as to let the statistician include the sales figures of the following year in the current year. Later on when they see that the figures exceed those in the plans, they would include the sales figure in the current year in the amount of the following year. Shen Jiangong [3476 1696 0501] of Zhumadian City Department Store in Henan Province wrote and pointed out that this situation of taking statistical figures as "elastic bands" or "dough" which can be lengthened or shortened at will runs counter to the principle of statistics and cannot reflect reality. Therefore, the statistical departments and statisticians must have their own independence. Many readers suggested the adoption of a statistical method which can be adapted to the conditions in our country so as to enable the statisticians to carry out their functions and ensure the timeliness and accuracy of statistical figures and economic reports.

It Is Necessary to Raise the Level of Statistical Work

Many letters pointed out that the present level of statistical work is not high and that it is necessary to improve it from all sides.

It Is Necessary to Strengthen the Study of Statistical Work

Li Boxiu [2621 0130 0208] of Yian County Statistical Bureau in Jiangxi Province pointed out that social economic statistics is a social science with a highly technical and specialized nature. It is necessary to strengthen the introduction and study of both the foreign and domestic advanced statistical methods. Comrades in charge of economic work must acquire some statistical knowledge. They will then be able to recognize the importance of statistical work and realistically strengthen their leadership over statistical work.

Some readers think that the existing statistical system in our country, including the scope of statistics, calculation requirements, the methods of investigations and so on, are unable to meet the demands of the development of the economic conditions. How to reflect economic results is a new task at present under the new conditions of the implementation of the responsibility system of calculating rewards in joint production in the countryside and the implementation of the responsibility system in management in industrial and commercial enterprises. Shao Qing [6730 7230] of the Fushen City Supply and Marketing Cooperative in Lianoning Province suggested that statistical work must be linked up with the system of economic responsibility. Contract enterprises must do a good job in statistical reporting in accordance with the specifications laid down in the statistical system and this task should be included in the contract. Those who do not follow or do not seriously follow statistical regulations must be economically sanctioned. Statisticians must also do a good job in investigation and statistical work in such aspects as natural conditions and purchase power in the economic regions, do a good job in market forecast and provide the contract enterprises with accurate economic news.

It Is Necessary to Build Up a Relatively Stable Statistical Contingent

Ping Huizheng [1627 1920 1813] of the Benxi City Local Products Company in Liaoning Province wrote to us and pointed out that at present there is a frequent transfer of statistical personnel in the basic level units and this has a tremendous influence on statistical work. In addition, there are many newcomers and errors abound. Some mistakes are absurd. It is necessary to stabilize the contingent and strengthen the work of training. Zhang Jing [1728 7234] of Guannan County People's Bank in Jiangsu Province wrote and pointed out that various forms of training should be adopted. For example, workers may be released from production to take up studies, they may be trained at their posts and they may audit the business and so on. It is also necessary to strengthen ideological and political education, praise and award the advanced and effectively conduct job evaluation. A reader has made a good point in saying that a capable statistician who does a good job must first be bold to resist fraud and must secondly be good at clarifying and supporting truth with evidence and explaining the danger of the inaccuracy in statistical figures.

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